

# Returns on philanthropic investments

• By DOUGLAS GOLDSTEIN

Sign on the bottom of the check and hand it to the charity. Get the receipt and turn it over to your accountant. Feel a sense of satisfaction. That pretty much sums up the way most people give charity.

Strangely enough, no other business transaction happens that way. People would never give a \$100,000 check to a company and just hope the money would be well used. First they would check out the program; make sure the goals are on target; see who's in charge; understand the purpose for the funds; determine that the company is well run; and then follow up to make sure that they got their money's worth.

So, what stops people from giving?

Some philanthropists have trimmed their charitable work because they either have personally felt the sting of poorly managed donations, or because they have seen the many media presentations about the failings of certain charities. One recent *Wall Street Journal* article told the story of a doctor at Cornell University who tried to expose how over \$20 million in grants for nursing care for children never made it to the ultimate cause. In fact, the *Journal* found that over half of "grant-getting scientists used grant money designated for one project on another project."

Major donors have begun to question whether the money they donate actually goes to the desired cause.

Many wealthy people establish foundations that bear their names, hoping to better the world for generations to come in accordance with their philosophies. What they don't see, though, is that once their own hand stops controlling the money the direction of the foundation often veers far off course.

Consider the \$7 billion Kellogg Foundation. The original aim of the Midwesterner William Kellogg was to help the average guy help himself. Where does the money go now? According to *Forbes*, tens of millions have gone to help places like the Committee to Encourage Corporate Philanthropy and the National



Center on Nonprofit Enterprise. It makes one wonder what happened to the realization of Kellogg's dream.

## TAKE AN ACTIVE ROLE

Since the media frequently exposes potential problems with charitable giving, philanthropists are becoming more wary with their donations. Instead of limiting their donations as a result of possible misuse of funds, more donors are taking an active hand in overseeing their contributions. Sometimes they get personally involved with the money they give, not by just sitting on the board of directors, but by working intensely with the charity's management and program directors. If the donors are too busy themselves, they may send family members, lawyers, or family office consultants to ensure that their donation goes where it was intended.

While smaller charities are always looking to expand their budgets, they may not be capable of dealing with a large influx of cash. In one recent case that the Israel-based Profile Family Office handled, a donor's gift to build a local library had been placed in the bank rather than used to fill bookshelves. After several months, when asked why the organization hadn't used the cash, the director claimed that they lacked the manpower to build infrastructure and buy books. They needed the

family office's coaching to get them to actually spend the money the way the donor intended. It wasn't that they didn't want the money, they just didn't know how to properly administer the donation. Donors wishing to see their donations used promptly, carefully, and expeditiously often ask a family office consultant to coordinate all the details.

## EFFICIENCY IN CHARITIES

While some charities appear well run, they may not function as efficiently as for-profit businesses. Their leaders normally have hearts of gold but frequently lack sophisticated business sense. Therefore, a family office can represent the donor by working directly with the charities in such areas as:

- \* Examining the organization's short-term and long-term strategic plans (often focusing on budgeting and accountability).

- \* Making sure the services that the charity intends to provide have solid underlying systems and are actually achievable.

- \* Encouraging and helping to implement new programs inside the organization.

- \* Reviewing the credentials of the leaders and their staffs to make sure the right people are handling the donor's money.

- \* Following up with the organization to oversee and audit the ongoing results of the philanthropic investment.

In Israel, certain major foundations have their own staffs of professional overseers. These people work full-time running an office that keeps a close eye on the operations of the recipients of the money. Individual philanthropists also can oversee their charitable giving by having family office consultants represent them on specific projects or for certain sums of money.

By being hands-on with their charitable projects or by partnering with a family office, donors can feel confident that their philanthropy isn't just money being thrown at a nice sounding concept with a colorful brochure. They can know that their money is being carefully invested and watched over by experts who share their same dreams. ■