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Strategic Philanthropy: Many Paths to Choose

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Strategic Philanthropy: Many Paths to Choose

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Introduction

When it comes to philanthropy and charitable giving, do you have a random approach to giving, or a strategic approach to giving? Do you only give when asked or are you deeply passionate about a particular cause? Do you give on a local, national or international level? Do you give to be social and attend galas and golf tournaments? Or are you fully engaged, and growing and learning by your giving approach? How important is philanthropy to you?

With so many wide-ranging challenges in our world, the topic of philanthropy is near and dear to our hearts at HighView. Personally, having been deeply engaged as both a long term volunteer and donor, giving back aligns with my values, enhances my personal growth and yes it makes me feel really good to know that I am making a difference and effecting positive change in our world. Being effective at philanthropy does not just mean how much money and time you give, but also how you approach your giving.

"What is the difference between charity and philanthropy?" Charity is giving while philanthropy is doing. Charity alleviates the symptoms while philanthropy tackles the root problems.

*"**Charity** tends to be a short-term, emotional, immediate response, focused primarily on rescue and relief, whereas **philanthropy** is much more long-term, more strategic, focused on rebuilding. There is **charity**, which is good, and then there is problem-solving **charity**, which is called **philanthropy."*** Steve Gunderson, former president of the Council on Foundations

People choose to give in many ways and for many different reasons. Philanthropic giving is often a direct expression of a person's beliefs and values. It can include tradition, religion, gratitude, recognition, influence, tax planning, legacy creation, compassion, wanting to pass on values, wanting to make an impact in one's community, and wishing to effect change in today's ever changing and challenged world. Philanthropy can be a way to connect with your community, your family, your friends and colleagues. It can be an opportunity to pass on a great legacy to the next generation. And it can feed your desire for learning and personal growth while providing a sense of purpose.

This paper explains the meaning of "Strategic Philanthropy", and the various solutions to structure your giving including: giving by way of direct annual gifts or pledges, a Giving Circle or Collective, Donor Advised Funds, a Family Foundation, or leaving a legacy through estate planning and life insurance. For Donor Advised Funds and Family Foundations, we also touch on the topic of investing long term capital for additional Impact.

What is Strategic Philanthropy?

For donors who wish to truly maximize the impact of their giving they should really think about developing a strategic plan rather than taking a random approach; or one that is simply dictated by the numerous requests one might receive. To be truly effective in your giving, develop a proper plan to optimize impact and efficacy so that you can feel good about the difference you are making and understand the impact you are having. You might call this ***giving with purpose.***

phi·lan·thro·py
/fəˈlanTHrəpē/
noun
The desire to promote the welfare of others, expressed especially by the generous donation of money to good causes. Charity aims to relieve the pain of a particular social problem, whereas philanthropy attempts to address the root cause of the problem.

As with business planning, a thoughtful and engaging strategy will help determine what you want to achieve from your giving, and how to do it most effectively.

You may know where you want to direct your donation dollars. However, it may be difficult to prioritize given the range of pressing needs and requests; and the vast number of charitable organizations that exist. There are so many causes to choose from: social, health, education, environmental, community, children, women, diversity & inclusion, reconciliation, arts, music, sports, animals, and the list goes on. Defining a clear focus facilitates giving in a manner that is not ad hoc, or just giving to all the requests that come your way. By having a properly thought out philanthropic plan, you can politely decline requests for donations that do not fall into your plan. You can suggest that your giving is complete for the year, and then explore whether certain requests fit with your strategy.

Developing your Philanthropic Strategy

Determining the causes where you wish to make an impact can be accomplished by asking yourself, and your family:

1) **What are your motivations?**
2) **What issues in your community are of concern to you?**
3) **What keeps you up at night?**
4) **What concerns you about the future?**
5) **Do you want to make an impact in a specific area?**
6) **If you could spend two weeks volunteering for any cause, what would it be?**

Start by identifying your passions and values. Reviewing your past donations could be a start – what have you learned from these? Has anything impacted you in a particular way? Ask what motivates you and your family members. Choosing your area of interest may come from your own journey. For example, the first charity I chose to become involved with was Sheena's Place. As a young woman, I had an eating disorder that I overcame, and I wanted to share my experience, build awareness, demystify eating disorders and help patients and families successfully recover.

Understand what inspires you to give, what motivates you, what are you compassionate about? What concerns you and what actions will you take to address those concerns? Be clear about your values and beliefs. Turn your displeasure with something into action.

Involve Family: Strategic philanthropy is also a warm way to introduce children to thoughtful giving. Family members may have certain interests. Having family members involved in giving opportunities can provide for engagement and expression. Working together around shared values is important.

Defining a clear focus for your giving allows you to move from ad-hoc, reactionary giving to giving to causes which are most important to you. This type of focussed giving allows you to grow, and learn more about the issues you are influencing, and to achieve greater impact.

Once you and your family have determined the causes you wish involvement with, the next step is to develop a well thought out plan with rules of engagement and parameters for decision making.

Design your Vision and Mission statement: Your vision is your long-term view of the kind of world you would like to see. The mission defines how you are going to try to achieve your vision. A vision and mission for a family can help guide the discussions, choose the causes and provide guidance to external organizations. These statements should be short and inspiring.

The Diana, Princess of Wales Memorial Fund
Vision: Our vision is a world in which the rights of the disadvantaged are respected.
Mission: By giving grants to organisations, championing charitable causes, advocacy, campaigning and awareness-raising, we are working to secure sustainable improvements in the lives of the most disadvantaged people in the UK and around the world.

More examples of Mission Statements:

Our mission is to support individuals, families and friends affected by eating disorders to overcome barriers and provide effective community-based services at all stages of recovery. (Sheena's Place)

Our mission is to fund the medical equipment necessary to provide high quality patient care. (Oakville Hospital Foundation)

Our mission is to Protect, Educate and Empower children to rise above adversity through the power of play. (Right to Play)

Our mission is to provide scholarships in the arts and music to underprivileged youth who want to pursue their talent and desire. (Private Foundation)

Our mission is for social justice, economic redistribution and racial harmony. We volunteer with and donate to organizations that involve people in confronting and changing the institutions and public policies that affect their lives. (Private Foundation)

Our mission is to mentor low-income youth in Canada's inner cities to increase college and university graduation rates. (Private Foundation)

Your philanthropic mission statement should express your ambition about addressing a problem that you believe is dire. A philanthropic mission statement may include a clear and concise action, a target population, a geography and a desired outcome. Your mission statement will likely evolve with time and participation of family members. Ideally you want to articulate your goal, or mission, so that you can always refer to what it is you want to achieve with your giving.

Determine your Objectives: What do you expect to change as a result of your giving? Is your objective to improve the local community? Is it to bring together the family? Clear objectives help you to set priorities, and then be able to look back and determine the impact of your giving. Your objectives should relate to the activities you undertake.

Determine your Aims: How will you do it? What do you want to measure? Develop statements of intent for WHAT and HOW. The "what" might be "I want to increase the number of girls in school". The HOW could be something like: "Design programming that engages girls so that they stay in school".

Choosing your Causes: Make a list of causes you wish to support and why. Choosing 2-3 causes as a starting point can allow you to develop a greater sense of the cause, its stakeholders and to determine how you can make a measurable difference. Choose 2-3 causes that align with your values, or Family Mission statement for philanthropy. Have your children and grandchildren research causes that interest them. You would be amazed at what they think about and what is important to them – it opens the door to incredible communication and family discussion. You may be surprised about what your family will teach you.

Philanthropy typically looks to preserve something of importance like your local symphony or arts community. Or it looks to improve outcomes for health, education, the impoverished, or the environment or many other things. By choosing 2-3 areas of concern for your giving, you can go deep rather than wide and make a more impactful difference. Determine your focus area. For instance, if it is health, what within the health arena is important to you? Is there a particular problem you want to help solve? The clearer your focus, the greater your impact.

In choosing the causes you wish to support, research the effectiveness, the finances, the board members, the employees, and the governance structure. Just like you might review an investment thesis, take the time to understand the effectiveness of the organization you wish to support. What is the difference the organization is making? How is it measured? Is the desired impact being achieved? Perhaps invite the organization to present to your family.

Ask yourself what level of involvement you and your family wish to have? Do you want to volunteer, provide your expertise, fundraise, involve friends, and/or use your business network to provide skills? Or do you prefer to be on the sidelines, viewing at a distance? Getting involved will certainly increase your connection to your philanthropy.

As I became involved in our community, joining the local Oakville Hospital Foundation Board provided me with an amazing opportunity to be part of a new hospital build and fundraising campaign; and to understand much more about our Ontario health system and how important it is to have community funding for hospital equipment. I also learned to think a little differently about how charities operate, e.g., you cannot simply look at an expense ratio and compare it between charities to suggest one is better than another. As there is no set standard for an expense ratio, different charities may use different metrics. Each charity will have costs much like "for profit" businesses do – employees to pay, rent to pay, administration and reporting to complete. The key is understanding the inputs and outputs – e.g., if you want the best CEO, there is a cost. It is still a competitive world. And fundraising campaigns cost money. Programming costs money. Sometimes important programs have upfront costs before the benefits are gleaned such as in garnering monthly donors. The high short-term costs to acquire donors provides sustainability and predictability to the revenue stream longer-term. Typically, large capital campaigns have a period of higher expense ratios during the lead up to the campaign and during the first couple of years before pledges begin to roll in. It's also important to understand the difference between restricted (least flexible and very focussed) and unrestricted funding (most flexible and can be used in areas of priority as determined by the charity).

I might also encourage you to think beyond the big high-profile charitable causes that are already well served and look to make a greater difference in underserved and underfunded areas. (Malcolm Gladwell's podcast on this subject is a great one http://revisionisthistory.com/episodes/06-my-little-hundred-million). Also think about giving in the community you live in versus the community you work in. For instance giving through the United Way at work may compete for dollars with the United Way in your local home community, or the downtown hospitals near where you work might compete for dollars with the hospital in your home community.

Measuring Impact: Designing a personal approach to philanthropy takes time – you may wish to start small, slowly engaging with organizations, feeling them out so to speak, gradually learning about how your gifts will make a difference. As you learn more over time, you can focus on what you want to achieve and measure the impact your gifts can make. Once you understand what you want to achieve, you should set criteria and measure outcomes to determine the success of your efforts. Creating measurable impact requires patience, flexibility and long-term planning. It can be a terrific way to engage family members and create a legacy.

An issue that sometimes plagues philanthropy can be a lack of measurement. This can be more difficult when trying to compare similar organizations. Questions you may wish to ask include:

1) What growth and impact do you expect to see over time?
2) What do you want to measure?
3) How does the organization evaluate its success?
4) What are the goals of the organization?
5) What are the activities, and do they support your mission?
6) Can they provide evidence-based results and evidence of impact?
7) Is there a strong management team and good corporate governance?
8) Who are the major donors?
9) Is the organization and its fundraising sustainable? What are the funding sources?
10) Are long term goals achievable and realistic?

We suggest you spend the first year tracking your giving and assessing how your contributions made a difference; and then plan for the next year based on your experiences.

Philanthropy Solutions

Philanthropic Ways to Give

- Give annually or make a pledge for a certain time frame
- Join a Giving Circle or Collective
- Set up a Donor Advised Fund either through a Community Foundation or a financial institution
- Create a Family Foundation
- Leaving a legacy gift by way of your Will or an Insurance Policy

It is my view that defining the mission, and objectives and purpose of your Philanthropic Strategy is of paramount importance to have framed *before* choosing the giving vehicle that suits you and your family. The time and focus put into your giving strategy will prove invaluable in determining the most appropriate vehicle to employ in delivering your strategy, as well as help you to determine the level of involvement you wish to have.

Many people prefer to give annually in an impactful way and may decide on their own, or with family, to allocate to specific causes once a year. This allows for flexibility and minimal administration and costs.

Some people may wish to be involved in a Giving Circle or Collective and be part of a larger gift to specific causes. A Giving Circle or Collective is a group of individuals with a common interest who pool contributions and collectively decide where to donate their funds.

Other people may prefer using a Donor Advised Fund or a Family Foundation which may grant amounts to charities of choice each year.

Another common way of giving is through a legacy gift by way of your Will or by a life insurance policy which designates the charitable organization as the beneficiary.

There are basically two ways to give: Directly or Indirectly.

Direct giving can be done by annual gifts, a pledge over a certain number of years, or through a Giving Circle or Collective. This can be done with either cash or a donation of securities or capital property. In Canada, the gifting of securities or capital property offers tax savings when the gift has embedded capital gains. The donor receives full value for the gift of securities or capital property without incurring the capital gains tax. As the charity is not for profit, there is no capital gains tax realized on the immediate sale of securities or capital property to the charity. This provides a significant opportunity for tax planned giving in Canada.

Indirect giving can be accomplished by way of a Donor Advised Fund, or a Family Foundation.

A Donor Advised Fund might be accessed either through a Community Foundation, or a financial institution. Community Foundations are local organizations such as the Toronto Community Foundation or the Oakville Community Foundation, and often focus on causes that affect the local community. Today there are over 160 Community Foundations across Canada. Community Foundations provide excellent guidance on selection of causes and can help make decisions on where to donate. Many financial institutions have set up Donor Advised Funds for their clients. Giving through a Donor Advised Fund at a Community Foundation is common when a donor wishes to gift within the local community or leave a legacy to the local community. Donor Advised Funds are often used by donors that may not have the time to do proper due diligence or to spend time carefully selecting charities of choice. They may have a small amount of funds to donate, or they may not want to deal directly with grant seekers. The Community Foundation or Donor Advised Fund through a financial institution can provide the help, oversight and administration of giving.

What about a Family Foundation? Typically, a Family Foundation may be the way to go when a family has significant funds, wants more engagement, and the ability to apply their own expertise and experience to their giving. A Family Foundation offers flexibility and can involve family members in the decision making. Involvement allows families to shape their gift more personally. More engagement of family allows for desired goals and outcomes, learning experiences, a sense of accomplishment – ideally making more thoughtful and informed decisions. And long-term strategic giving typically engages the donor in a more structured, sustained and engaged way.

Family Foundations can allow for several family members to come together. This can help shape common values and family identity, while teaching younger generations about values, investment management, resource allocation, project evaluation and the impact of their giving. Philanthropy can be a fertile training ground for children with respect to family values.

Families usually create foundations for long term giving and legacy purposes, however, more and more family foundations are being set up as "time-limited" or "sunset" foundations. Foundations set up for perpetuity can leave a lasting imprint and create an enduring legacy. However, some families wish to see immediate impact of their giving. They want to make a difference today, not tomorrow. These foundations, also known as "spend-down" or "limited life" foundations are accounting for more and more newly created foundations. This is because the founders may wish to see impact happen during their lifetime, to narrow the focus, to make transformative gifts and to tend to the urgency of today's challenges. Or they may have no one to pass the foundation on to. The desire to make transformative change is increasingly resonating with philanthropic families.

It is important to note that once a Donor Advised Fund or Family Foundation is funded, the funds cannot be returned to the donor. The funds are invested usually in the capital markets, and an annual amount must be distributed as per the CRA rules (today 3.5% of the value of the fund must be annually granted/distributed to charities). The set up of each of these will have different administration and associated costs including investment management fees. When there is an opportunity for a significant gift of securities, such as the sale of a large portfolio or a company, then a Foundation might be the way to go so that decisions about giving can be made over a longer term horizon, while the taxable benefit can be immediate and up front.

A Family Foundation is the most highly structured form of giving however it also requires the most time and effort to make it successful. You may wish to think about a Family Foundation if you are truly interested in making a difference and being involved. You should have time to be personally engaged and wish to have hands on experience with grant seekers. And you may wish to engage family members in the decision process. Should you wish to include family members, it is important to think about the relationships among each other and who wants to be involved. You would be wise to determine a level of interest prior to setting up a foundation.

If deciding on a Family Foundation, you will want to ensure that the foundation is of a sufficient size to carry the costs and administration. You will also want to work with an investment manager that understands foundation requirements, will work with you to design an Investment Policy Statement, and that has a selection of investments that align with your goals and cashflow requirements. Most Family Foundations in Canada are between $1M - $10M in assets, with some significantly larger.

A Family Foundation can be structured either as a Trust (managed by Trustees) or as a Not for Profit Corporation which provides for limited liability. Both must register with the CRA as a charitable organization. A foundation must prepare reports on activities and distributions, declare assets and grants, and name all board members.

Choosing the best giving option, direct or indirect, will depend on several factors including motive, personal style, values, tax planning and interest, as well as costs and ongoing administration. Foundations require time, commitment, administration and tax filings. However, they also allow for a high degree of control over management of assets.

Leaving a Legacy Gift: Choosing to leave a charitable gift in your Will can result in a donation receipt that can reduce your taxes owed. A bequest is to designate a specific cash dollar amount, or percentage of residue of your estate to charity. An alternative to a cash bequest, may be a gift of securities or capital property (with embedded capital gains), or naming a charity as beneficiary of a registered account, which may further reduce taxes.

The Gift of Insurance: Charitable giving using life insurance products is another option available which can also provide for an enduring legacy, along with tax benefits. There are three ways of using life insurance for gifting: donate your current insurance policy to a charity, name a charity as beneficiary of your insurance policy, or purchase a Charitable Insured Annuity.

A Move Towards Impact Investing: Placing Long Term Capital in Alignment with the Mission of the Foundation

For Donor Advised Funds and Family Foundations, the initial and subsequent capital donations, would be invested to garner returns to fund the 3.5% annual distribution plus administrative and investment management fees.

More recently, much discussion has been had about the investment of long term capital funds of foundations and endowments. Should these invested funds also be in alignment with the philanthropic mission? Should the capital that is invested be aligned with the mission of the Donor Advised Fund or Family Foundation such that it is invested in a way that is ESG acceptable (ESG stands for Environmental, Social and Governance). Can capital be invested in Impact investments that are designed for a market return but also an impactful return? Do the goals of the investments match the philanthropic investments? More and more foundations are looking at becoming 100% impact oriented; or at the very least having a 10-20% allocation to Impact Investing. Can these investments be utilized to further the mission/vision of the intent? Can you use the capital in a way that, in addition to providing annual grants to charities, also aligns with and advances your mission? At HighView, we recently launched our Impact Investment Mandate which aligns with the United Nations 17 Sustainable Development Goals.

In summary, there is much to contemplate when it comes to Strategic Philanthropy. It is important to educate yourself, determine your areas of interest, and perhaps speak to other Family Foundations if this is a route you wish to explore. You may even want to hire a consultant on strategic philanthropy. The more you allow philanthropy in your life, it is highly likely the more you will find meaning, joy and purpose.

Sources

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About the Author

Loren Francis has 18 years of experience as a board director in the not-for-profit sector. Loren is currently on the Canadian Advisory Board of Right to Play, a charity dedicated to empowering children in disadvantaged communities through play. Loren previously served on the Oakville Hospital Foundation Board for 9 years (2008-2017), on the Investment Committee of the Oakville Community Foundation for 3 years (2013-2016) and was a member of the Responsible Investing Sub-Committee. She is a past board member, Co-Chair Fundraising, and Chair of the Investment Committee of Sheena's Place, which supports patients and their families suffering from eating disorders (2002-2009).

As VP & Principal at HighView, Loren works closely with families and foundations, and collaborates with their trusted advisors, in all aspects of investment counselling, portfolio design and allocation, financial and tax planning, philanthropy and wealth stewardship. She is a member of the HighView Portfolio Strategy Committee, responsible for analysis, due diligence and ongoing monitoring of investment managers, researching new investment ideas and overseeing process and performance. Loren has written a number of articles on the topics of ESG and Impact Investing. HighView is a member of the Responsible Investment Association of Canada.

Loren is a Fellow of the Institute of Chartered Professional Accountants of Ontario (FCPA/FCA), holds the Canadian Investment Manager (CIM) designation and completed her MBA at the University of Toronto.

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