

A PRIMER ON STRATEGIC PHILANTHROPY

Maximizing Impact

Goldman
Sachs

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Greater EXPECTATIONS

The world of philanthropy has changed significantly in the past 20 years. Donors today have come to expect—and in many cases require—that their nonprofit partners not only show the ability to get the job done, but that they can deliver on their promises by achieving measurable results. This disciplined approach can lead to more effective philanthropy and build stronger partners. In certain ways, this is a sea change. In the past, many donors were satisfied with a general sense that their contributions promoted the well-being of their communities or the public good. Increasingly, donors are now committed to having real impact in shorter time periods, and applying fresh thinking and tactics to problems that have eluded conventional approaches. As they take on the role of change-agents many donors today regard demonstrable accomplishment as key to their success.

By describing how The Goldman Sachs Foundation seeks to join the ranks of these forward-looking philanthropies, we hope to share what we are learning and provide a case study of strategic philanthropy in action.

An aerial photograph of three people sitting on a light-colored wooden floor. They are arranged in a loose circle, each focused on writing on a large sheet of paper. The person on the left is wearing a dark red shirt and black pants. The person at the top is wearing a red shirt and dark pants. The person at the bottom is wearing a white and grey striped shirt and grey pants. There are some small items, like pens and erasers, scattered on the floor between them.

The DECISION

In 1999, Goldman Sachs took a bold step. With a \$200-million donation from The Goldman Sachs Group, Inc., The Goldman Sachs Foundation was born with a clear mission: to promote excellence and innovation in education worldwide with a focus on developing high-potential youth, advancing academic achievement, and promoting entrepreneurship and leadership education on a global scale. The Foundation's operating principles mirror those of Goldman Sachs—creativity and imagination, teamwork, integrity and determination to achieve excellence. Its goal is three-fold: Identify specific gaps and needs in the educational system; cultivate “niches” where real impacts can be made and monitored; and leverage the core competencies of Goldman Sachs professionals to enhance grantmaking and strengthen nonprofit institutions. This targeted approach relies on interventions and partnerships and puts a premium on results. For us, the real bottom line is sustainable, positive change in education and youth development. We call it strategic philanthropy.

A person wearing a red jacket and white pants is walking away from the camera on a dirt path through a misty forest. The trees are tall and thin, and the ground is covered in green grass. The overall atmosphere is serene and quiet.

The Strategic APPROACH

For many years, corporate foundations have employed a variety of methodologies to distribute their assets. Some organizations support individuals and groups with promising ideas about how to improve the lives of citizens or bring about social change more broadly. Others choose agendas focusing on issue areas and nonprofits that interest senior corporate executives. More recently, foundations have begun to embrace a more exacting approach to their grantmaking that has been influenced by the performance-based standards of the business world and adoption of more rigorous ways to measure results. This greater emphasis on measurable outcomes affects how foundations choose their “social” bottom lines. At The Goldman Sachs Foundation, our strategic approach has several characteristics.

IDENTIFYING OPTIMAL
PHILANTHROPIC OPPORTUNITIES

The world is full of problems, not every one of which can be addressed appropriately by every philanthropy. Identifying optimal opportunities for philanthropic investments requires a healthy realism about both the funder's and the grantee's skill base, expertise, and resources as well as a willingness to challenge conventional thinking and entrenched assumptions. Strategic philanthropy requires a careful and ongoing examination of each project's or organization's emphasis in order to narrow the array of possibilities, find ripe opportunities, and assess where investments can have the greatest return.

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CASE STUDY

Assessing Need and Seizing the Moment

A recent national study commissioned by the Asia Society demonstrates young Americans' profound lack of knowledge of the world. And in the wake of September 11, there is a strong need for greater cross-cultural understanding. Founded in 1956, the Asia Society seeks to foster understanding about Asia in the West by closing this "international knowledge gap." While we are unable to place an international curriculum in every classroom, The Goldman Sachs Foundation partnered with the Asia Society to establish the Goldman Sachs Foundation Prizes for Excellence in International Education, designed to identify and document effective model K-12 international education programs for schools, states, and higher education institutions. The prizes will provide needed exposure for outstanding work in the international education field to encourage replication—and begin closing the knowledge gap. With its vast network of education, business, and political leaders, the Asia Society was uniquely positioned to work with the Foundation to advance its interest in international education.

MAINTAINING DISCIPLINE AND FOCUS

The ability to keep a steady “eye on the prize” pays off handsomely in terms of ensuring effectiveness. Donors must exert organizational discipline to ensure that selected partners bring innovation as well as deep knowledge to the shared issue area and that the funded program is in full alignment with the donor’s vision, goals, or mission. Moreover, a clear and unambiguous understanding between the donor and grantee of a philanthropic investment’s desired outcome is an effective bulwark against inadvertent mission creep. Discipline and focus must also be combined with prudent risk-taking to ensure that philanthropic investments support innovative problem-solving and sustainable solutions.

CASE STUDY 2

Choosing the Right Path and Staying on It

To address the educational challenges of Hispanic youth, the Hispanic Scholarship Fund (HSF) has awarded scholarships on a competitive basis to more than 61,000 Hispanic students. When HSF and the Foundation sought to collaborate on a project, we chose not to follow the course taken by our peers—providing monies for additional scholarships. This would have been inconsistent with our approach. Instead we conceived a program to ensure that the leadership potential of high-achieving Hispanic students is fully developed—one of our priorities. Working together, the Foundation and HSF launched scholar chapters at 15 universities where large numbers of HSF students are concentrated, enabling them to excel at higher levels, network with other high achievers, and connect with successful alumni and business professionals. This project has permitted the Foundation and our grantee partner to develop a new strategy that brings innovation to a mature organization and to the field.

ACHIEVING RESULTS

A pillar of strategic philanthropy is the embrace of measurable accomplishment. Through demonstrable results a funder can accrue the reputational capital needed to attract partners and achieve impact in its chosen field. A results-based philosophy requires a vision for the future, but it also demands policies and practices day-by-day to ensure accountability and maximize program success. For donors and grantees, these include *(1) transparent expectations and goals, (2) clear plans and time horizons for evaluation and assessment, (3) programmatic reporting mechanisms, and (4) a shared commitment to reaching the desired result.* Strategic philanthropy is interested in pragmatic, on-the-ground accomplishments that produce real improvements rather than short-term interventions that have only limited impact.

CASE STUDY 3

Defining Success and Attaining It

Founded in 1987, the National Foundation for Teaching Entrepreneurship (NFTE) teaches the basics of starting a business through an extensive network of highly trained teachers affiliated with schools and youth development organizations around the world. In 2000, the Foundation awarded NFTE \$1 million to expand its entrepreneurial programs and build its organizational capacity. A portion of this grant was designated for strategic planning assistance from McKinsey & Company. Using this plan, NFTE has grown dramatically: increasing the number of young people served each year by approximately 140%; enhancing its distribution channels; improving its curriculum; and adding new donors.



The Tools of
**STRATEGIC
PHILANTHROPY**

Carrying out a strategic approach to philanthropy takes more than understanding the conceptual dimensions of this innovative method to solve social problems. The practice of strategic philanthropy also benefits from a set of prudent procedures and mechanisms that give it a dynamic structure to provide the best chance for program success.

CONDUCTING DUE DILIGENCE

In addition to targeted investments and a drive to attain results, strategic philanthropy typically encompasses the core elements of due diligence and evaluation. Strategic philanthropy demands a competitive due diligence process to assess funding prospects and to determine which candidates demonstrate exceptional promise and are poised to make a difference, leverage support, grow, and deliver on specific goals. The process goes beyond funding a great idea; timing and fit are crucial factors. As funders, we must constantly ask ourselves: *Are these the right people? Is this the best strategy? Is this the right moment?*

In more specific terms, due diligence focuses on scrutinizing carefully the quality of program concept, the organization's capacity and track record, and the effectiveness of its leadership and staff. A potential partner's financial stability is, of course, a fundamental criterion, but gauging the depth and breadth of its vision is every bit as important. Due diligence also requires a keen understanding of systematic program evaluation and the use of meaningful measuring tools to make sure that the organization can stay on track and accomplish agreed-upon goals. Finally, a potential partner must demonstrate effectiveness in communicating program successes so that lessons learned can have the broadest possible impact.

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CASE STUDY

Picking the Right Partner

In a world of extraordinary change and complexity, the need for courageous and effective leaders is a constant. When The Goldman Sachs Foundation sought to identify and support the talents of 100 outstanding second-year college students from across the globe, we evaluated several potential partners to administer the Goldman Sachs Global Leaders Program. Our due diligence determined that the Institute of International Education (IIE) was an ideal partner. Established in the aftermath of World War I, IIE is the world leader in the international exchange of people and ideas. Most relevant to us, IIE had proven experience managing outstanding fellowship programs. While its track record was strong, we had to predict IIE's current ability to design a creative new concept that would become a flagship program for our young foundation. We considered the quality of IIE's management and the range of its staff's skill set, as well as the organization's capacity to manage a far-reaching program for students from 70 of the world's top colleges and universities.

The evaluation function—think “quality control”—is critically important to the credibility of a philanthropy and its programs. In this era of limited resources, it is incumbent upon the Foundation and its nonprofit partners to be highly attuned to program effectiveness and efficiency. An essential building block of strategic philanthropy, evaluation makes it possible for a funder to know supported projects are results-based and achievement-oriented. Evaluation can be conducted by the grantee, the funder and/or third-party evaluators. It can assess the impact of individual investments, entire program areas and overall organizational performance. However, evaluation can be difficult and expensive. Interested donors should inquire about evaluation plans and make grant recipients aware that rigorous but cost-efficient evaluation is expected. If sizable funding is being provided, a donor may consider setting aside a certain portion of grant funds for evaluation. Additionally, when selecting potential grant recipients, a proven track record in evaluation and measurable results can be a decisive criterion.

Establishing firm goals at the outset and taking pains to develop valid measuring tools increase the prospects of success and provide an ongoing feedback mechanism to make mid-course corrections if necessary. It also serves to collect data which can demonstrate for the public, in concrete terms, what actually has been accomplished and how.

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CASE STUDY

Setting Goals and Tracking Outcomes

To develop the high-potential youth needed to tackle today’s demanding leadership roles, the Foundation has teamed up with the Center for Talented Youth (CTY) at The Johns Hopkins University to identify gifted youngsters in the 7th and 8th grades from underrepresented groups and improve their ability to compete for admission to the nation’s most selective colleges and universities. The Foundation and CTY measure key indicators that students are on track towards achieving the stated goals, including monitoring standardized test scores and the number of AP/honors courses in which students are enrolled. With the help of Foundation funding, the number of African American and Latino students enrolled in CTY’s programs has jumped from less than one percent in 1999 to more than nine percent in 2002. CTY also tracks actual data on class enrollment and academic achievement in high school and college matriculation. The first contingent of students supported by the Foundation enrolled in college in the fall of 2003 and will attend such institutions as Amherst, Carnegie Mellon, Georgetown, Massachusetts Institute of Technology, University of Pennsylvania, Wesleyan University, and Emory, among others.

Funders are, of course, in the business of providing financial resources. But money need not be the only form a contribution takes. By adding human capital and technical assistance to the mix, a powerful additional dimension of contributing opens up and can greatly enhance strategic philanthropy. “Venture philanthropy” is our form of human capital investing.

People define it differently, but in its simplest terms, venture philanthropy bundles financial resources with expertise to impart additional value to the nonprofits being supported. It’s not distant advice. For The Goldman Sachs Foundation, it involves leveraging the time, passion, spirit, and skills of Goldman Sachs professionals so that nonprofit program partners can benefit from their business knowledge. This engagement takes several forms. The people of Goldman Sachs provide strategic business planning advice to nonprofits, while others act as mentors working directly with high school and college students. Still others serve on advisory boards and boards of trustees, where they help bring business acumen and strategic analysis to education initiatives. The Foundation also provides various resources to organizations to support or supplement grants. For example, many high school and college students are given access to the Foundation’s Online Leadership Curriculum, which enables students to take developmental courses used by Goldman Sachs professionals. The application of venture philanthropy offers a distinctive opportunity to use resources more broadly and inventively.

For individual donors and family foundations, there are several ways to take advantage of expertise and connections to develop your own brand of venture philanthropy through human capital contributions. For example, you might consider:

- _ Providing in-kind support directly through business services (if applicable).*
- _ Providing financial resources for in-kind services to be procured from external sources (e.g., help with strategic planning, evaluation consultants, website development).*
- _ Sitting on boards or committees (or recommending others who might have the time to do so).*
- _ Connecting organizations with other organizations you support to encourage collaboration.*
- _ Introducing favored organizations to peers and friends to help generate co-funding by others.*

At its best, venture philanthropy strengthens the operations and effectiveness of nonprofit partner organizations, and the convergence of business and social enterprise allows funders to apply more sophisticated analysis when investing for social returns.

Venture philanthropy provides other benefits as well. As funders and practitioners work together, they find the intellectual exchange is a two-way street: nonprofits are pushed to explore new solutions to complex problems, and funders may sharpen their understanding of social issues, learn about nonprofit operations, and develop leadership skills.

Lasting IMPACT

Through strategic philanthropy, the Foundation seeks to promote effectiveness of the organizations it supports. If they have grown and flourished, then we have as well. Although our mindset has been to focus significant resources on a relatively small number of nonprofits, the Foundation believes this concentrated effort ensures that we actually aid a large number of young people in achieving their dreams.

Yet for us, and other like-minded donors, this is complicated and difficult work. The ideas we have discussed here are the fruits of our experience and are not necessarily “the right way” for all donors. Choosing among many concepts and adapting them appropriately is a course of action that we apply ourselves and recommend to colleagues.

Our success is derived from the passion, energy, and intellect of the Foundation’s Board and staff and those of the organizations we support. Working together, combining enthusiasm and rigor, we believe our social impact can be maximized through thoughtful analysis and strategic involvement.

ABOUT THE GOLDMAN SACHS FOUNDATION

The Goldman Sachs Foundation is a global philanthropic organization funded by The Goldman Sachs Group, Inc. The Foundation’s mission is to promote excellence and innovation in education and to improve the academic performance and lifelong productivity of young people worldwide. It achieves this mission through a combination of strategic partnerships, grants, loans, private sector investments, and the deployment of professional talent from Goldman Sachs. Funded in 1999, the Foundation has awarded grants in excess of \$40 million since its inception, providing opportunities for young people in more than 20 countries.

For more information on the Foundation’s programs and projects, please visit us at www.gs.com/foundation