The Future of Philanthropy

Joseph Zanetta

An essay contribution to
GHC *Conversation* 2010

garyhubbell consulting

garyhubbell consulting

philanthropy ▲ strategy ▲ planning ▲ coaching

P.O. Box 510257 ▲ Milwaukee WI 53203 ▲ 414-962-6696 ▲ www.garyhubbellconsulting.com

The Future of Philanthropy

By Joseph M. Zanetta

I love history – particularly twentieth century American history. I think it harkens back to an experience I had in first grade. I was a "good student" and probably my niceness and good manners caused me to be the teacher's favorite. It served me well in that the Governor of New York State, Nelson A. Rockefeller, was coming to the local community college in my hometown of Jamestown, New York to officially dedicate the brand new campus. It was an exciting day, and I was selected to present the Governor with a gift.

That was in 1960. Fifty years ago! Amazing! I became a fan of Governor Rockefeller, and had the pleasure of meeting him several times during his long tenure as Governor and later Vice President of the United States. So my love of history came naturally – as a first grader – and I have considered myself an amateur historian for the past – gulp – fifty years. It made a huge impact on my life to have met the individual from the family that in so many ways created major philanthropy in the United States.

My grandmother – whom I was incredibly fond of – lived through the entire twentieth century. She was born in 1903, and died at the ripe old age of 102. During her long and interesting life, she would often tell me about the Great Depression. She became a widow in the spring of 1929 and was left with two children to feed and care for. A few months later, the Great Depression hit the country. She had been frugal, but lost most of her savings and stock that she had purchased. Many times she told me about how painful and difficult it was for herself, her daughters, family members, and the entire country to recover from that economic cataclysm. She often said "you are so lucky that you will never live to see banks close." She went on to say – "Seeing your hard earned money go poof when the bank closes makes you feel so helpless and weak. But my grandson will never live to see that happen again."

Guess what? My grandmother (Mary Martinelli) was wrong. During the summer of 2008, I was driving to my office and saw a huge crowd gathering outside of the Pasadena headquarters of Indy Mac. It reminded me of that scene from "It's A Wonderful Life" when George Bailey is leaving Bedford Falls for his honeymoon with Mary when he too saw a crowd in front of the

Bailey Brothers Savings and Loan. And it took luck and tenacity for him to save the "Crummy old business" from closing.

Indy Mac was not so lucky. It actually failed that day – and I was a witness to history repeating itself. In 2008, the country saw many banks and financial institutions fail. Lehman Brothers, Bear Stearns, Merrill Lynch, Countrywide Savings, Madoff… the list goes on and on – and you get the picture. My grandmother was wrong – I did live to see banks fail. I saw people lose fortunes in the stock market. I lost money in the stock market. Many of my friends lost money, including some who had savings beyond the federally insured limit of $100,000.

What does this have to do with charitable giving? Most of the charitable giving in this country is provided by individuals. The most recent Giving U.S.A. survey that I have seen confirms that approximately 80 to 90 percent of charitable giving is the result of individuals making a voluntary gift to a non-profit. Foundations, created by individuals, and corporations managed by individuals, contribute the balance. In my view, the earthquake or tsunami that occurred in the financial markets in 2008 have served as a defining moment for our generation, much as the Great Depression served as a defining moment for our grandparents. Baby Boomers and Gen X and Y will forever remember that scene that I witnessed – a financial institution closing, people losing their funds, a crisis. The failsafe mechanism that Franklin D. Roosevelt and the New Deal administration put into place in the 1930's were unable to prevent a repeat from occurring.

People lost their homes. People lost their savings. Baby Boomers saw the value of their hard-earned retirement funds decline in value. Others saw their homes value plunge, their stock holdings reduced dramatically, their bonds "called" or put into a discount category. As many financial analysts have stated – "there was no place to hide during the economic crisis of 2008." I wish we had a name for what occurred – something like Great Depression Two might work.

There is irrefutable evidence that philanthropy continued to thrive during the 1930's. The Sisters of Little Company of Mary whom I work for opened a brand new hospital in Chicago in 1930. My alma mater secured a significant gift from Myron Taylor, the Chairman of U.S. Steel, which provided for a new home for the Cornell Law School to be built in the 1930's. There are many other examples of giving. And in 2009, despite all of the concerns cited, the decline in charitable giving was not huge. There was a decline of about 10 to 15% in gifts nationwide. But what is significant is that the decline represented the largest slow-down during the last fifty years.

What is the impact on philanthropy? I shall return to my grandmother's statement about how she had to worry about finding money for food and shelter. Her nest egg was gone. The bank had failed. Her stock in the local company was worthless. Many of us have had our real life experience that this too could happen. And in fact, it happened to many of us. We were taught that if you worked hard, went to college and graduate school, got a good job, saved money, you would be able to meet your family obligations. You most likely would retire with a handsome income, and could give back to society and honor the social contract.

All of that came to a screeching halt in 2008. Everything we had worked so hard to achieve – homes and savings and retirement funds – were subject to a huge and shocking decline in value. There was no place to hide. I have friends who worked at Indy Mac bank and their lives have never been the same. Our national psyche took a hit and people no longer have the confidence and belief that economic security is achievable.

Those pensions that you counted on could be evaporated by a court procedure. Insolvency, liquidation, foreclosure, dissolution, and bankruptcy have become buzzwords that have a dark and menacing translation: go to jail, do not pass go, forfeit your $200. So the first impact on philanthropy is obvious – people are not feeling like they have achieved economic security, so people most likely will reconsider their generosity towards non-profits. Individual donors whom I have met with are less inclined to make a multi-year commitment due to the turmoil in their balance statement. I have never been a believer that tax considerations motivate individuals to make charitable gifts. However, we need to get back to the basics, and discuss what does motivate one to make charitable gifts.

During my thirty year career in philanthropy, I have developed several core values and beliefs as to guiding principles. Most of my work has been with individuals at a variety of institutions – alma mater, college, university, prep school, medical center foundation. Some of the individuals made significant commitments to various non-profits that I was privileged to represent. The Cornell alumnus wanted to give back and provide a scholarship, because he had attended the university on a scholarship. The Belmont Hill School parent made a generous planned gift, because his three sons had all attended the school and received fine educations. The Whittier College trustee endowed a chair in his and his wife's name, and funded a major building renovation in his father's name. His father had been a member of the Whittier College Faculty during the 1920's. Finally, many of the generous donors I have worked with at my present institution received excellent health care, and indeed were "grateful patients."

Why do people give? There are a variety of reasons. A loyalty to alma mater. A feeling of gratitude towards a high school that educated one's children. A desire to honor the memory of a loved one. A need to support a hospital. These are reasons that shape individual's charitable side. The social contract has always stated that we give to those less fortunate than us. I refer it to the Robin Hood theory – we take from the rich to give to the poor. But in the world of philanthropy, we do not "take" from the rich – they make voluntary commitments to a variety of wonderful charitable organizations.

Therein lies the second defining moment in our lives and in the world of philanthropy. In 2009, Americans generously made gifts totaling approximately $300 billion dollars. But the federal government, through a new acronym known as A.R.R.A. made nearly $800 billion available through "stimulus" funding. Charities are scrambling to get in line for this new source of funding – terms like "shovel ready" and "economic engines" have replaced phrases like loyalty and the goodwill that a private donor receives when she makes a voluntary gift. The federal funding available to charitable organizations has dwarfed private giving.

How does this impact philanthropy? People think that the government will handle the organization's capital needs. There are countless examples throughout the country where a private organization, charitably organized, was struggling to get the message out that it needs private dollars. And along comes the federal government with barrels of money, and the focus shifts from philanthropy to hiring high – priced law firms and consultants who understand A.R.R.A. funding.

My own view is that this has made philanthropy in some ways less appealing to private donors. Why would a private donor, already feeling vulnerable due to the downturn in his/her investments and real estate, make a significant gift when the federal government is exercising its largesse? The focus on stimulus funding, and the attention it has received, has in some ways served as a chilling influence on individual philanthropy.

So we need to get back to the basics, and understand what motivates an individual to make a significant commitment in the first place. The reasons I stated are just a few factors in the decision to make a charitable gift or bequest. People have a lifetime association with an organization as a volunteer or board member. An individual attended a private grade school, high school, college or university, and those experiences helped shape his or her life. Values are learned through education. Social causes drive individuals to participate in feeding the poor, working at a homeless shelter, building homes through Habitat for Humanity, and developing a commitment to eradicating a disease. Organized religions are values based, and certainly the recipient of a huge percentage of the charitable gifts in the United States. The arts provide wonderful opportunities for private giving, and many of our museums and symphony halls are the recipients of gifts from civic minded individuals. In Los Angeles, the Getty Center and the Disney Concert Hall are two wonderful tributes to the incredible generosity of J. Paul Getty and Walt and Lillian Disney. That kind of giving serves as a way to model behavior and encourage other donors to likewise support the arts.

But I continue to believe that the economic trauma brought on by the collapse of our financial markets, and the resulting increase in federal funding to non-profits, will serve as an albatross on our efforts for the next decade and possibly longer. As an individual who considers himself quite philanthropic (trying to give 10% of my income annually), I have re-thought my giving based on the harshness of the new economic realities. At one point I was quite confident I would continue to be generous through annual gifts and create some legacy opportunities through a planned gift. Indeed I may eventually do so, but rebuilding my personal balance sheet, funding my son's college education, and planning for my retirement all have taken more of my hard-earned dollars, since many of my assumptions on growth and income have been seriously undermined by what took place.

And I am not alone. The pyramid in giving where the top donors provide the vast majority of a charity's incomes are the very same individuals whose financial statements have been affected by the downturn. Warren Buffet is no longer as wealthy as he once was. Nor is Bill Gates. Certainly they will continue to be generous, but all individuals have to re-assess giving in light of the new economic realities we all face. This factor, combined with the federal government's ability to literally print money and distribute it to many charitable organizations lead me to believe that we do not yet fully understand the impact on giving. There has been a sea-change, a paradigm shift, and those of us who toil in the fields of charitable giving need to have a better sense of the altered landscape. It cannot be business as usual. The gyrations of the stock market, where we have witnessed huge swings between bull territories and bear markets, will be with us for some time. There is no instant cure to rebuilding your net worth.

I have no crystal ball which tells the future. However, just as I was made aware of the importance of good manners and being a gentleman in first grade from my teacher Miss Lodestro, I have also learned a great deal about philanthropy during my thirty year career. Economic security is something that people strive to achieve as a prerequisite for being generous, and many of the pillars of that security (savings, home and hearth, stocks and bonds) were put at risk by the changes that took place in our economy. I am not pointing my fingers at anyone. Many people acting in good faith caused the problems to develop. My concern is about the future, and how nonprofit organizations will navigate the waters brought on by this sea change.

Nelson Rockefeller figured it out. He and his brothers created the Rockefeller Brothers Fund, because they were not satisfied to meet their obligation to society through the foundation that their grandfather had created. So we can look to the Rockefeller family as individuals who have supported schools, colleges, universities, medical centers, and arts organizations, third world countries, for over 100 years.

And my grandmother figured it out although she did not have the resources of the Rockefeller family. When she died, she had a bag stored in her bedroom that contained several thousands of dollars – because she never regained the trust in those banks that closed.

So perhaps we can weave together the lessons of Nelson Rockefeller, Mary Martinelli and others too numerous to mention, and together develop a new attitude that will be based on the core values of stewardship, justice, philanthropy and the social contract.

About GHC Conversations

Annually, Gary Hubbell Consulting convenes and hosts a small hand-picked group of social sector professionals from throughout North America for three days of intense dialogue and critical thinking. We strive to create a thought-provoking, mind-opening, and stimulating conversation about philanthropy, organizational leadership, and the sector as a whole. This deep exploration of the nature and challenges of the philanthropic environment is intended to engage, inform, and inspire senior leaders to be catalysts for change in their own organizations and communities of influence. With each GHC Conversation, we seek to establish the seeds of a continuing and enriching network that nourishes us as individuals and helps each of us change how we converse, inspire, and seek new dimensions of philanthropy. This essay is one contributed for *Conversation 2010*.

garyhubbell consulting

Conversation 2010
Participant Bio

Joseph M. Zanetta, J.D.
President
Providence Little Company of Mary Foundation
4101 Torrance Boulevard
Torrance, CA 90503
310-514-5398
joseph.zanetta@providence.org
www.lcmhs.org

Joseph M. Zanetta, J.D., is the President of the Providence Little Company of Mary Foundation, a not-for-profit, integrated health care system comprised of more than 25 health care sites throughout the greater South Bay, Harbor and Palos Verdes Peninsula communities of Southern California. He recently concluded the foundation's most ambitious fund raising effort to date – the successful $50 million Legacy Campaign.

Zanetta has over 30 years of experience as a fundraising professional, including past leadership responsibilities at Whittier College, University of Southern California, Belmont Hill School, and Cornell University.

Zanetta received his undergraduate and law degrees from Cornell University and is a member of the New York State Bar. He is active in many civic, professional and community organizations and is a well-known speaker and consultant on philanthropy. and consults with non-profit organizations in fund raising and board development. A resident of Altadena, California, he is the proud father of sixteen-year-old Samuel Leggett Zanetta.

Joe attended *Conversation 2009* in Scottsdale, AZ.