

If the Dow Breaks, Will Health Philanthropy Fall? Strategic Grantmaking During Economic Uncertainty

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If we were measuring the health of our foundations by financial growth over the past two years, some of us might be considering life-support systems. Fortunately for the field, and for those we support through our grantmaking, the health of our organizations is not measured by dollars alone.

The measure of our work is defined in people. On the inside of our organizations, it is the people who carefully listen and plan ways to improve the health and health care for the citizens we serve. Out in communities, it is the people who receive grant dollars – those who make change happen.

Still, the economic uncertainty of the past couple of years has changed us. We are doing business differently – from the amount of grants we are making to the way we are making them. We need to analyze where we are as a field and how we can continue our philanthropic work to improve the health and health care of the people we serve.

This article gives one foundation's view of the current situation, what we see as opportunities, and how we believe philanthropy can be redefined in positive ways as a result of this challenging time. Specifically, it is a time for accountability and, ultimately, for more strategic grantmaking – some of which will include dollars but most of which will mean nongrantmaking activities such as convening, brokering, leveraging, and communicating in new and more effective ways.

ONE FOUNDATION'S VIEW

The Kansas Health Foundation is a private philanthropy with a mission to improve the health of all Kansans. We are a new health foundation (or conversion foundation), although our most significant growth came almost two decades ago now – in 1985 – with the sale of a not-for-profit hospital to a for-profit entity.

We define philanthropy as making change possible and improving humankind. Our investment and grantmaking philosophies are long-term. This allows us to ride out the

occasional economic storm by making slight adjustments in strategies, but never losing sight of the single most important goal of our work: improving the health of Kansans. With annual grantmaking averaging about \$20 million over the past few years, we focus our efforts in three program areas: public health, children's health, and leadership. One major initiative strengthens community foundations as a way to leverage local resources and increase philanthropy in the state.

With an approach to health grantmaking that encompasses the social determinants of health (a broad-based definition that includes social, behavioral, and environmental factors that influence health), the Kansas Health Foundation could have a "sky is the limit" mentality toward our work. But financially, as we all know – whether boom or bust years – there are not enough resources to completely change factors as complex as education, environment, and economics.

This begs the argument for more strategic grantmaking – and nongrantmaking – activities.

A STRONG DOSE OF REALITY

When the stock market began its decline a couple of years ago, economists and financial experts explained the phenomenon as a natural cycle. We were long overdue for an adjustment in a market that was overvalued – kind of like letting air out of a tire that has been overinflated, they said. What we didn't know is how fast that deflation would occur, how quickly the technology boom would go bust, or the after-effects of September 11th on the nation's collective psyche. Since March 2000, it has been a roller-coaster ride with more downs than ups.

At the same time, needs are increasing and government funding is waning. Nonprofits are being hit with what one newspaper called a "triple whammy" – the loss of their own endowment funds, the loss of corporate and individual donations, and the loss of foundation funds. From Atlanta to Buffalo, Chattanooga to Detroit, Los Angeles to Orlando,

the concern is deep and wide.

For private philanthropy, the effects include reduced endowments, often translating into decreased grantmaking and, in some cases, decreased staffing levels. Experts ranging from investment managers to the *Wall Street Journal* to McKinsey & Company have offered advice, including:

- **Cutting operating expenses, which might include personnel.** This immediate solution is perhaps one of the most painful and unfortunately often only stops the financial “bleeding” in the short-run.
- **Decreasing grantmaking.** When assets decline, so does grantmaking – eventually. What did not affect us in 2001 will catch up with us in 2003. The impact is really only now beginning to register.
- **Increasing payout.** The IRS’ required 5 percent payout for private philanthropy may seem low in prosperous years, but in times like these, it protects the erosion of foundation assets. Unfortunately, increasing need draws attention to the argument for increasing payout.
- **Spending down assets or invading the corpus or principal of the endowment.** Like increased payout, this decreases a foundation’s grantmaking ability over time. In the Kansas Health Foundation’s experience, grantmaking doubled (\$10 million in 1985 and \$20 million in 2001) in 15 years as the endowment grew. In fact, from 1985 until August 2002, the foundation’s giving exceeded its original \$200 million endowment – arguing that the state has benefited exponentially by allowing the foundation’s assets to grow.

The best advice seems to be to cut expenses and grantmaking as needed, but not to jump to drastic measures unless the economy falters and assets drop even more dramatically. In some cases, our colleagues – especially those with stocks in a single company – have had to do this. For many of us, we have the time to develop staged plans that protect our assets and allow us to adjust our operations to best serve the needs of our constituents.

PLANNING FOR A NEW ERA

The early years of this millennium have been a reality check for funders and grantees alike. This means we no longer can think in terms of “business as usual.” We need to leverage resources, broker relationships, and evaluate the impact of our work so we can better target our grantmaking. We will be watched more closely than ever, and we need to be ever more vigilant in how we conduct business, holding ourselves accountable and communicating our work – and its impact – to new audiences.

The new health foundations still hold an important role in their communities. We have to abandon the “sky is falling” mentality and respond in short-term and long-term ways that do not detract us from our overall goals, but keep us relevant to society’s needs.

Grantmakers In Health has published several reports about effective grantmaking in recent years. It is refreshing to see that issues such as strategic deployment of resources, the importance of communications, continuity in a program topic, and developing a staff that can work with grantees are still important.

In fact, an early advocate of strategic grantmaking in health philanthropy, Dennis Beatrice, recently confirmed that non-grantmaking activities – convening, analyzing, and brokering – are still effective. “We are in the impact business,” he said. “Grants are a tool – they are a means, not an end.”

At the Kansas Health Foundation, we are fortunate that we have a tradition of strategic grantmaking and a staff that understands the importance of listening and finding leverage points where funding can have the most impact. But we, too, are re-examining our strategies and are committing ourselves to a multitiered evaluation plan that not only looks at individual grants, but how the grants and programs collectively impact the health of Kansans. By holding ourselves accountable, we can better target our grantmaking and better leverage outside funding for effective programs.

As Beatrice said, “This is a very exciting time. The test of making a difference is not when things are good – anyone can do it then. The challenge is when money is scarce.”

With each day’s check of the stock market, those of us in private philanthropy know that even the most optimistic adjustment will not quickly reverse the months of decline in the values of our portfolios. Our CFOs tell us it could take decades to recover the ground that was lost. But most of us believe we’re here for the long-term to ensure that financial resources will exist for future generations.

The needs of society will always outpace our financial resources. A recent report from the Foundation Center notes that foundations still “face the challenge of addressing infinite societal needs with finite means.” That is not going to change. The difference will not be what we do, but how we do it. And I know we will do it well.

The Kansas Health Foundation is a private grantmaking institution based in Wichita. The foundation’s mission is to improve the health of all Kansans. Funding categories include children’s health, leadership, and public health. For more information, visit the foundation’s Web site at www.kansashealth.org.

VIEWS FROM THE FIELD is offered by GIH as a forum for health grantmakers to share insights and experiences. If you are interested in participating, please contact Angela Saunders, GIH’s communications manager, at 202.452.8331 or asaunders@gih.org.