

10 Trade-Offs Donors Face That Make Philanthropy Tough but Rewarding

By Melissa A. Berman

Philanthropists often say that giving away money is tougher than any other job they have had. What makes philanthropy particularly demanding are the tensions and trade-offs donors constantly struggle with to achieve thoughtful, effective giving.

As F. Scott Fitzgerald aptly said, "The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function. One should, for example, be able to see things as hopeless and yet be determined to make them otherwise."

After advising wealthy donors for more than a decade, my colleagues and I at Rockefeller Philanthropy Advisors have identified 10 tensions with which every strategic donor wrestles. The dichotomy should make clear that there is no right or wrong, but that each of these ideas factors into the giving equation, resulting in philanthropy that is both inspiring and challenging.

Efficiency vs. effectiveness. Every donor wants to know that the nonprofit he or she donates to is a good, efficient steward of resources. Yet efficiency is not sufficient: A nonprofit must also be effective in its work to prove worthy of donations. So don't look just at measures of activity (like how many youths at risk are in a given program) but also at indicators of outcomes (how many kids stayed in school as a result of that program vs. the norm for that group).

Focus vs. flexibility. Donors can make a great impact by focusing on a select few causes rather than spreading their funds thinly among several. That said, adhering too closely to a set of rigid strictures dictating what you can support may result in missed opportunities and take the fun out of philanthropy. By focusing more on the outcomes you care about and less on strict activities to support, you can have a greater impact and contribute to causes that engage you. There is no need to ignore the dangerous spread of Ebola or not participate in the "ice-bucket challenge" because they do not match your giving rules.

Capacity vs. capability. An eternal question all donors struggle with is whether it is better to affect the largest number of people or to do the best possible job for a smaller, targeted group. A great program may help 150 low-income students succeed in college, but it may not have the capacity to expand its efforts to 150,000. The best solution is for a donor to find an organization with great capabilities and give it the capacity to achieve at a larger scale. Alas, that solution isn't always feasible, so you may have to choose between a small, highly effective program and one that works at scale.

Speed vs. thoroughness. Disasters, like the earthquake in Haiti in 2010, often inspire a swift and large influx of donations. They can also reveal issues that require more long-term, strategic help,

like shortcomings in Haiti's infrastructure and health-care system. Give away some money immediately after a disaster strikes to first responders, then pause—ideally for several months—to identify and support long-term solutions that can have a large impact in the area.

Solutions vs. systems. People often come up with nifty solutions to immediate problems, like bringing solar power to a small village in Afghanistan. However, the lack of infrastructure or accountability can limit the effects of the solution and keep it from being sustainable, self-sufficient, and therefore a true solution. Who's going to fix that solar-power system when something goes awry? By ensuring that systems are in place to support proposed solutions, you can avoid continually resolving the same problem.

Unique vs. standard. Since donors want to put their money into something that feels exciting and new, nonprofits often compete for money by stressing what makes them unique. Still, sometimes the biggest impact can come from simply improving a system that works and helping it expand, instead of reinventing the wheel.

Independent vs. collaborative. Donors with big ideas sometimes find they can be more successful following the Steve Jobs model than by collaborating with other organizations. Like Mr. Jobs, they have found that working independently allows them to test their ideas and bring them to market more quickly than waiting for a consensus. Nevertheless, collaboration is critical for solving large-scale endemic problems. Even a mammoth organization like the Bill & Melinda Gates Foundation doesn't have enough resources by itself to create a viable health system for West Africa. Think through how and when you'd like to collaborate with other donors.

Experiment vs. investment. Many donors see their gifts as an investment with a social return, deeming philanthropy a form of "risk capital." But it's perhaps more helpful to think of philanthropy as an experiment, with a thesis, methodology, protocol, and results to assess. Like scientists, we can accept and learn from failure if the experiment is well run.

Leader vs. organization. Donors are drawn to passionate, charismatic leaders. But not all charismatic leaders are good managers. In addition to looking for strong leaders, you should examine the organization's strength—whether it's full of talented people and run well—when considering whether to donate or work with it.

Ethical altruism vs. donor-driven priorities. The U.S. has a long tradition of supporting a broad range of charitable purposes, and our tax code reflects that diversity. We also rely more on private philanthropy to support arts, education, and health care than other countries do. And while some believe that certain forms of giving are better than others, most of us believe that philanthropy is a voluntary and personal decision. There's no hierarchy of goodness.

Each of these tensions makes strategic philanthropy both difficult and rewarding. To help navigate these tensions, donors should evaluate which ones are most important to them and how they see themselves in philanthropy. Then and only then can donors determine which trade-offs they are willing to accept. It's not a perfect world—that's why we need philanthropy.

Melissa A. Berman is chief executive of Rockefeller Philanthropy Advisors.