COMMENTARY

Editorials, letters, columns and other opinions

Redesigning the Philanthropic Business Model

COMMENTARY

Christian Braemer

America was built on the ideas and innovations of great risk takers. Their leaps of faith stimulated our economy, created jobs, and made our nation a world leader. Achievements in aerospace, high-tech, medicine, and the arts and humanities are the result of trailblazers and pioneers who yearned for something more than the status quo. So why shouldn't social ventures that aim to support these breakthroughs take the same risks?

Today, nonprofits are as interested in self-preservation and growth as for-profits, yet they're restricted from any sort of risk/growth capital. Finding the "cure" may be the benefactor's primary interest, but a bloated overhead conflicts with that goal, making it a constant struggle for nonprofits to decide between making distributions and growing the organization. We've all been to those swanky fundraising events where we are asked to write a check or raise our paddle, yet we rarely see that money turn into real value in terms of outcomes such as finding a cure.

As late **Los Angeles Times** reporter **Laurie Becklund** wrote in February in her final Op Ed piece, "As I Lay Dying," "The most powerful organization in the breast cancer universe, **Susan G. Komen**, has raised $2.5 billion over the last 20 years, much more than many corporations will ever earn. Yet Komen channels only a fraction of those funds into research or systems to help those who are already seriously sick. Most of that money continues to go to a breast cancer 'awareness' campaign that is now painfully out of date."

It's a critical and important truth that we must all must face. It's time for the nonprofit world to develop a business model that will actually connect innovators with philanthropic resources.

A More Personal Route

An integrated hybrid model that combines the nonprofit and for-profit worlds produces both social value and commercial revenue through a single, unified strategy. This efficient model trades short-term income for long-term value/growth, while giving donors a more personal route to funding what matters to them.

True philanthropists want real results, are willing to take risks, and will bet on ideas if they understand their true potential. Nonprofits have a unique opportunity to revamp their business models to better align the interests of philanthropists who want to take risks. This hybrid structure allows us to put more money where it's supposed to go — into the actual cause. It will dramatically increase the effectiveness of philanthropy.

Over the past decade, we've seen concepts like impact investing and venture philanthropy flourish. These investments seek to induce a social outcome over a financial gain, but they offer a measure of accountability. Why haven't those attributes been assigned to charitable contributions?

A traditional nonprofit's highest overhead tends to be fundraising-related, which causes them to become more focused on creating programs than raising money to support their underlying cause. So why not alleviate the conflict by introducing the notion of long-term value? A hybrid business model allows an organization to keep overhead low in exchange for a bigger payout down the road, which aligns the interests of the donor, the organization, and the cause.

Innovate and Disrupt

An article in the *Stanford Social Innovation Review* titled *In Search of the Hybrid Ideal* explores this idea of combining for-profit and nonprofit entities in a single mission, which means:

- Using equity as a long-term incentive in exchange for risk taking — and alternative to high salaries;
- Implementing a disruptive business model that scales and channels more money to the intended cause;
- Keep the altruistic motivation of making the world a better place;
- Offering a tax deductible financial vehicle.

By redesigning the nonprofit business model, we incentivize entrepreneurs to do what they do best — to innovate and disrupt — in an area that desperately needs it. Critics would say combining for-profit models with philanthropy is taboo. However, this new hybrid model allows for greater efficiency and transparency, and more money going to the actual cause. Here's something else to keep in mind: According to a recent **U.S. Trust** study, 98 percent of high net worth individuals give, yet only 40 percent are happy with their giving. With $240 billion in annual individual charitable contributions, the opportunity is arguably greater to launch the next "Uber for philanthropy" than anywhere else.

The need for disruption in philanthropy has been accentuated by the government's diminishing role in providing a social safety net. As funding for academic research continues to stagnate, our national security, health, economic dominance, and way of life are at risk. At the same time, philanthropy in America is at an all-time high, yet less than 3 percent of those dollars make their way to research. By leveraging philanthropy and changing the nonprofit business model, we can strengthen American innovation, improve society's well-being, and create more meaningful charitable giving.

Christian Braemer is cofounder and CEO of San Diego-based Benefunder, which matches donors with researchers. More info at benefunder.org.

Neutrality:

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likes the FCC decision because it favors the little guy and the startup business, giving them an equal footing with larger players. Foundation is a Minneapolis-based IT services provider.

80-year-old telephone regulations," said a statement from **Dave Bialis**, senior vice president and region manager for California.

Atlanta-based Cox said the move was "sure to be challenged in court," and called for congressional action.

Grace Digital is not as big as Cox. The Poway company, which makes consumer

Watlington, CEO of **Sotera Wireless**, which produces a device for monitoring a hospital patient's vital signs.

"An enormous amount of patient data is routed through the Internet," Watlington said in an email, noting that there are "consumers who are collecting their own data in the home and sending it to the cloud;