

You Say You Want Impact

by Dan Pallotta

NOVEMBER 22, 2010

When individual philanthropists and institutional funders think about impact, they think about innovative approaches to problem-solving – a new method for mentoring teenage gang members, a unique research strategy for curing Parkinson’s disease, or a groundbreaking way to foster entrepreneurship in developing communities. There is a focus now at many foundations on evidence-based grant-making, which is designed to identify the programs that are having the greatest impact. Once donors or foundations feels they have found such programs, they direct their giving toward them. All the big players do it, from Skoll to Gates. They typically want as much of their donation as possible to go to that specific program or idea at the charity in question. Why? Because they want their giving and their grant-making to have the maximum impact.

Makes sense if you don’t think about it too hard. But if you do, the logic collapses.

First, the most powerful ideas may not show results for years. Medical research is a great example: If evidence-seekers had asked Jonas Salk for evidence a year before he came upon the polio vaccine he wouldn’t have had any, and they would have passed on funding the man who cured polio)

Second, the way to maximize impact is not to fund a program that is having a great impact. The way to maximize impact is to fund a revenue engine that can multiply the dollars you are contributing – it is to fund the fundraising and development arm of the charity in question, not the actual program that’s making a difference. In making fundraising more

robust, you create a multiplier effect: Your donation has the potential to dramatically increase the amount of money flowing in to fund the program. If you fund the program itself, your donation will have zero multiplier effect.

I'll give you an example. In 1993, the L.A. Gay & Lesbian Center agreed to put up \$50,000 to allow us to test the idea of the AIDS Rides. With that \$50,000, we were able to attract another \$120,000 from a corporate sponsor. That was enough to cover our cash flow needs for the whole project. The event netted \$1,013,000 in its first year – a return of 20 times the original investment. Over the course of the next eight years, California AIDS Ride netted \$20,618,000 for the Center. That's a return of 412 times the original risk capital. The success of the first AIDS Ride made other AIDS charities take notice. With the concept proven, they began to ask us to produce AIDS Rides in their cities, from New York to Dallas to San Francisco. In eight years the Rides netted \$99,643,552 – a return of 1,982 times the original proof-of-concept investment.

What would you prefer – to give a dollar to an AIDS clinic and get a dollar's worth of services for someone with AIDS, or put a dollar into a revenue-generating idea and get \$1,982 worth of AIDS services for people with AIDS?

We launched the Breast Cancer 3-Days in Los Angeles with \$350,000 of risk capital in 1998. That first event netted \$4,222,000 – a return of 12 times the investment. With that money, the Avon Foundation was able to fund the expansion of the program to four cities for 1999, and those events netted \$16 million. That provided capital for more expansion. Within five years we were in thirteen cities. When we first came to Avon, the organization raised about \$5 million a year for breast cancer, mostly through the sale of pink ribbon products. Five years later we were netting them \$77 million annually. That's a total of \$194,444,377, or 555 times the initial investment.

What would you prefer – to give a dollar to an impactful breast cancer researcher, or to give a dollar to test a fundraising engine like the 3-Days, and have it turn into \$555 for the researcher?

We launched the AIDS Vaccine Rides with a \$1 million loan from LaSalle Bank. In two years we netted \$8 million – an 800% return. And the bank got re-paid with interest.

Now that's impact.

Know how the microfinance movement got started? Not by Ford giving money to entrepreneurs in developing countries, but by Ford putting up an \$800,000 guarantee that would allow Muhammad Yunus to get commercial banks, that were otherwise too risk-averse to back him, involved. The rest is history. Yunus's Grameen Bank has since made billions of dollars in loans to finance the dreams of poor entrepreneurs.

Why didn't we go to foundations to get the funding for our ideas? Because they wouldn't in a million years have funded us, or even taken a meeting with us. Why? They don't fund bike rides. They don't fund major gift campaigns. They don't fund fundraising.

That kind of arrogance, or ignorance, has to change.

Sexy and interesting as they are, we have to stop funding programs and start funding the fundraising ideas that can fund the programs. And I do mean stop. To continue is lunacy. We have to start taking financial risks to find the fundraising ideas that work. And we need a venturecapital-like approach to it. The potential multiplier effects are just too huge to be ignored.

They make direct funding of impactful programs look utterly and positively unimpactful.

What will it take for institutional funders and philanthropists to get this?

Dan Pallotta is an expert in nonprofit sector innovation and a pioneering social entrepreneur. He is the founder of Pallotta TeamWorks, which invented the multiday AIDSrides and Breast Cancer 3-Days. He is the president of Advertising for Humanity and the author of *Charity Case: How The Nonprofit Community Can Stand Up For Itself and Really Change the World*.

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