Stanford Social Innovation Review

Fall 2009 Volume 7, Number 4

Stanford SOCIAL INNOVATION REVIEW

Catalytic Philanthropy

Philanthropy-as-usual is too fragmented to fix the world's worst problems. But donors can knit together the solutions that spark big change.

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Recreating Fine Arts Institutions

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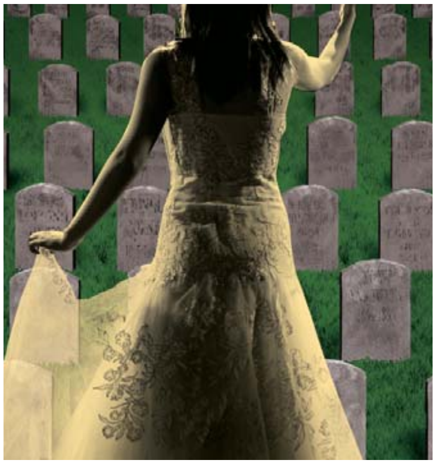

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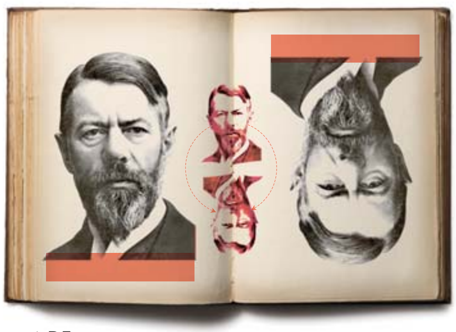

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IDEAS

ACTION

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Bloggers
Sean Stannard-Stockton, a principal and director of tactical philanthropy at Ensemble Capital Management, believes that President Obama's Social Innovation Fund could have an outsized impact on philanthropy.

Podcasts
Listen to a fascinating series of talks on online giving markets by GlobalGiving cofounder and President Mari Kuraishi, VolunteerMatch cofounder Jay Backstrand, Kiva President Premal Shah, and others.

Evidence-Based Solutions

It should go without saying that solutions to social problems need to be based on sound research. Unfortunately, that is often not the case. All too frequently, programs are based on intuitive and often simplistic causal models and casual diagnoses. Some solutions (for example, reducing class size to improve student performance significantly) may sound compelling but don't work. Other interventions (for example, trying to make everyone an entrepreneur through microlending) are based on ideology—what someone believes *should* be the solution.

In this issue, several articles remind us that the first step of any social program should be rigorous research that uncovers the causes of a problem and identifies how these causes can be altered. The articles also demonstrate that people can conduct these types of analyses in many different ways. They further illustrate the power of linking accountability with evidence-based solutions.

Take the case of the Meth Project (see "Catalytic Philanthropy" on page 30). Tom Siebel started out by hiring experts to find out why so many Montana teens were becoming addicted to methamphetamine. What he found was that most teens didn't know the risks of the drug—either how addictive it is or what effect it has on a person's body. Once Siebel got his answers he used professionals to devise a mass advertising program to inform Montana's teens of the risks of using meth. Just as important, he held himself and his partners accountable. The results—a drop in meth use of 45 percent among teens and 72 percent among adults in just two years—have been stunning.

The nonprofit Positive Deviance Initiative (PDI) takes a different approach (see "The Answer Is on the Ground" on page 63). Instead of focusing on the problem, PDI focuses on "positive deviants"—people in bad situations who fare better than the norm. This approach, which relies on real-world data and accountability, has been used to reduce malnutrition among poor Vietnamese and slash the incidence of a virulent form of infection in hospitals.

We also provide a cautionary tale about how a program can go awry because of the lack of ongoing research (see "Behind the Curve" on page 65). The U.S.-backed Millennium Challenge Corporation (MCC) has continued to funnel millions of dollars to the Senegal government well after it became apparent that the government was corrupt. MCC did this because it based its funding decisions on old and inaccurate research.

Given the superiority of evidence-based approaches, why aren't they more prevalent? Jeffrey Pfeffer and Robert Sutton identify several answers in their book *Hard Facts, Dangerous Half-Truths, and Total Nonsense.* These include *imitation*, our preoccupation with copying best practices; *inertia*, "the way we've always done things around here"; *ideology*, decision making based on "what ought to work" rather than "what actually works"; and *information overload*, too much—often conflicting—advice about effective management practice.

Identifying effective solutions requires a relentless search for, and scrutiny of, hard evidence; skepticism about new fads; and the humility required to learn from experience—your own and that of others. We hope *SSIR* is your primary resource for each of these important elements. ■

Stanford SOCIAL INNOVATION REVIEW

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Rallying to the Cause

> Does Eikenberry really believe society would be better off if banks canceled all cause-related credit cards and had us trade them in for cards that rewarded us with frequent-flier miles instead?
>
> —David Hessekiel

I've been a huge fan of the *Stanford Social Innovation Review* since its inception because it does such an outstanding job of balancing idealism and academic viewpoints with the challenges faced by those laboring in the field. Unfortunately, "The Hidden Costs of Cause Marketing" (*SSIR*, vol. 7, no. 3, p. 50) failed to sustain that delicate juggling act.

It would have been a fine theoretical exercise if professor Angela Eikenberry had stuck to lamenting that much of today's giving fails to live up to Aristotelian ideals. Unfortunately, Eikenberry uses her article to castigate programs that have generated billions of dollars over the years for good causes by appealing to the human desire to help others (as opposed to alternative marketing motivators such as greed or lust). The hidden cost of such carping is that fear of similar hypercriticism might dissuade businesses from attempting to create valuable programs in the future.

For example, Eikenberry would do away with credit cards that generate small donations based on spending out of fear that consumers *might* feel absolved from having to give in other ways or might lose touch with the root causes of social problems. On the contrary, people who go out of their way to order such credit cards are usually among the most ardent backers of the groups the cards support. Most don't stop writing checks when they get their antihunger credit card—they just feel more connected to the cause. (And does Eikenberry really believe society would be better off if banks canceled all cause-related credit cards and had us trade them in for cards that rewarded us with frequent-flier miles instead?)

I am not an uncritical booster of all cause marketing programs. After eight years of studying the field from the helm of the Cause Marketing Forum, I know that many initiatives could be better conceived and executed and fall short of the complete transparency that we consider ideal.

Eikenberry seems to think that many engaged in cause marketing believe that it could be a panacea for the world's problems. Over the years I've met thousands of people in this field, and I've never met one who put it on such a pedestal. Cause marketing is an adjunct to many other forms of giving and civic engagement by individuals and institutions, not a substitute.

Just because cause marketing can't do it all doesn't mean that it should be tossed aside. In the best of cases, cause-related programs can help move the ball a little further toward the goal of incrementally improving the world by having companies and causes pool their creativity, capabilities, and other resources. At a time of such enormous economic challenges, the world could use more, not fewer, smart and sustainable cause marketing initiatives.

David Hessekiel
President
Cause Marketing Forum
Rye, N.Y.

In the Philippines, cause marketing is still rough around the edges. Corporations will engage in cause marketing but often shy away from any larger view of social change. A local clothing company will market a new shirt with a logo that suggests the wearer is doing good, but the shirt will be modeled by celebrities known for conspicuous consumption and it will be manufactured in China by companies that have poor labor practices. The same clothing company will advertise their "I'm Committed" shirts on huge billboards that fall down and kill people during the typhoon season.

Having worked for the North Star Fund, a sister foundation of the Haymarket People's Fund that you praise in your article, I appreciate the difference between the societal change efforts practiced by these foundations and the corporate cause marketing efforts that often fall short of getting to the root of the problem.

John L. Silva
Senior Consultant
National Museum of the Philippines
Manila

At almost every step of the way, Angela Eikenberry, in her article "The Hidden Costs of Cause Marketing," has drawn incorrect assumptions about cause marketing based on anecdotal or flawed research or simply on faulty logic.

Eikenberry writes that, "The sheer volume of pink products seems to lead many consumers to believe that breast cancer is the most pressing health problem facing women today." She seems to suggest that any awareness given to anything other than the most serious cause would distract from that cause. On the contrary, cause marketing can be used to bring attention to a problem that people did not know even existed. Tide detergent, for example, created its "Loads of Hope" campaign to help fund its program of bringing mobile washing machines to help people clean their clothes after a major disaster. Tide was able to bring attention to a little-known problem and help solve that problem at the same time. (Who knew clean clothes were a major problem following disasters? I didn't.) Did this distract people from their concerns about AIDS in Africa? There is no reason why it should. These are two separate and distinct problems that can be solved by two separate and distinct methods.

I also take issue with the author's point that "cause marketing campaigns hinder future donations to charities because consumers think that their purchases are donations." Where is the flip side of this position? How many people have become aware of a problem through cause marketing and contributed either time or money to solve that problem, when they would never have done so before? Consider the U.S. postage stamp that benefits the Susan Komen fund. Of the millions of people who have chosen to buy that stamp, how many would have made a contribution to breast cancer research by other means? I suspect, statistically, very few. So, while there might be some decline in giving by some people, it is far outweighed by the incremental giving that is created.

Jeff Atlas
President
Atlas Advertising & Consulting
San Francisco

Contrary to the title of the article, "The Hidden Costs of Cause Marketing," there is nothing hidden about cause marketing. Unlike the majority of major gifts solicited by large institutions in this country, cause marketing gifts are not negotiated in boardrooms on mahogany tables, or on the top floor of some skyscraper over a T-bone steak. These deals are done in stores and restaurants across America by everyday people in full view of their peers. How can something so open, so public, and so optional be called hidden?

The fact that effective cause marketing means that some causes get more attention than others is a reality that simply is not going away. A philanthropic Eden where nonprofits are given equal time and resources did not predate cause marketing, nor would it spring from its elimination.

Professor Eikenberry is critical that cause marketing obscures the link between markets and consumers. Many of the items made for causes, however, are products we use every day. The red iPod I run with supports Product RED. I like soup so I buy Campbell's because it boasts a pink ribbon. The vacuum I own is a pink Oreck that supports Komen. There is a lot less waste in cause marketing than the author thinks.

Raising awareness of the neediest charities should be a priority, but this won't be accomplished by eliminating cause marketing. There is room for the easy gift out there—for the buck or two at the register. Plenty of thoughtful giving happens. And how sure can Eikenberry be that cause marketing isn't one of them?

Joe Waters
Director, Cause & Event Marketing
Boston Medical Center
Boston

Staying on Mission

In their article "Mission-Driven Governance" (*SSIR*, vol. 7, no. 3, p. 36) Raymond Fisman, Rakesh Khurana, and Edward Martenson make the important point that many well-meaning organizations deviate from their missions and suggest methods to avoid what many observers call "mission drift." This is an essential lesson that could have, by itself, composed a valuable article.

The authors, however, committed their own form of mission drift by proposing what they assert is a "new" form of nonprofit governance that takes governance theory to its "next logical step by focusing on how to improve the effectiveness of board members and executives in pursuing their common interest in advancing the organization's essential purpose and values."

This is not to imply that the authors' proposals are bad or wrong, but they are certainly not new. BoardSource, publisher of the world's largest and most comprehensive collection of material on nonprofit governance, first published *Ten Basic Responsibilities of Nonprofit Boards* in 1988. Each of the authors' "new" ideas is embedded in one or more of those 10 responsibilities.

Two more BoardSource initiatives furthered the principles of nonprofit governance. The Governance Futures Project, under the aegis of BoardSource and the Hauser Center for Nonprofit Organizations at Harvard University, produced the book *Governance as Leadership*, published in 2005. The authors articulate three modes of governance that compose a new construct of board leadership: fiduciary, strategic, and generative thinking. Although boards have always engaged in the fiduciary and strategic modes, concomitantly engaging in generative thinking enables boards to frame higher-order problems in novel ways.

That same year, BoardSource convened a group of governance experts to explore the question: What is the difference between a "responsible" board and an "exceptional" one? The results were published in *The Source: Twelve Principles of Governance That Power Exceptional Boards*, and provide guidance to boards that aspire to go beyond the compliance and legal responsibilities alluded to by Fisman, Khurana, and Martenson.

Each of these books is readily available and widely read. Whether those who have purchased the books actually act on the principles and practices articulated in the books is another question. But for the authors to imply that nonprofit boards have not had access to authoritative governance thought leadership is a severe and perplexing oversight, as well as a disservice to *SSIR*'s readers.

Deborah J. Davidson
Vice President, Governance Research & Publications
BoardSource
Washington, D.C.

Thank you for publishing "Mission-Driven Governance." After working with dozens of nonprofits, I have found that, regardless of the size or scope of the organization, board members do not fully appreciate the strategic importance of their role.

This is most evident in times of leadership change. A proactive, mission-focused board will build succession planning into their strategic process. Many organizations have not focused on succession planning or talent management, so the departure of the chief executive leaves the board without an in-depth understanding of the organization's leadership challenges or its mission.

Many boards possess the skills to govern effectively, but it often seems they leave those skills at the door. Too often, the focus is on keeping administrative costs and enterprise risks low, without adequate consideration or understanding of what it takes to ensure program quality and impact. Board members want to make the most of their contribution. It's up to a group's leaders to find ways to educate their board about the mission of the nonprofit and the role the board plays in achieving it.

Priscilla Rosenwald
Principal
Leadership Recruiters
Philadelphia

By Alana Conner

DEVELOPMENT

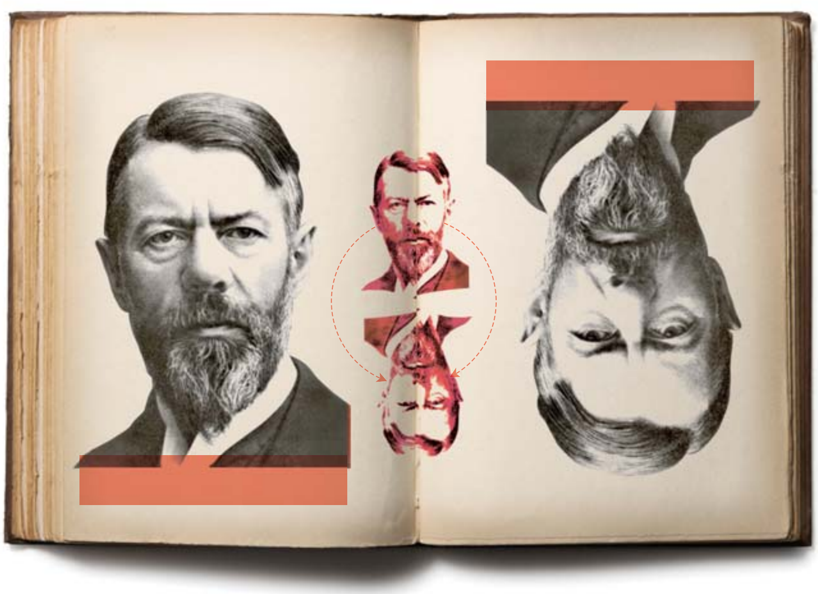
It's Not About the Work Ethic

▶ In 1517, a German priest named Martin Luther sparked the Protestant Reformation when he nailed his *Ninety-Five Theses* to a church door in Wittenberg, Germany. Since that time, regions that adopted Protestantism have grown more affluent than did regions that maintained their Catholic roots—a trend that another German, the sociologist Max Weber, attempted to explain in 1905. In his classic work *The Protestant Ethic and the Spirit of Capitalism*, Weber contends that Protestants' harder-working ways are responsible for their greater wealth.

But a recent article by two German economists challenges Weber's venerable theory. "Protestants started education efforts earlier than Catholics," notes Sascha O. Becker, a professor of economics at the University of Stirling (Scotland) and the study's lead author. Over time, it was this jump on schooling, not a religion-driven love of labor, that ultimately drove Protestants' higher productivity.

"Researchers have long known that education matters for prosperity and well-being," says Becker. "Education helps you to get a better understanding of how the world works, helps you go beyond subsistence to do bigger things."

Luther was big on education. Opposing the Catholic practice of relying on priests to read and interpret the Latin Bible, Luther insisted that people read and interpret the Good Book for themselves—a feat that required Bibles in local languages and an elementary education. To these ends, Luther translated the Bible into German, encouraged towns to build schools, and urged parents to educate their children.



PHOTOILLUSTRATION BY DANIEL FAZER, BOOK PHOTO BY ISTOCKPHOTO

In contrast, Weber did not have much to say about education. Instead, he linked the greater economic development of Protestants to their belief that every person has a calling—a God-selected job whose profitable performance both attracts and indicates God's favor. To signal to other mortals that they are among God's chosen people, the theory says, Protestants work harder, save more, and therefore accumulate greater wealth.

"I never knew what to make of the Protestant work ethic," Becker admits. "How do you measure it? Is it how many hours people work? The way they work? It's an elusive concept."

To test the more modern idea that education, not ethics, fueled Protestants' financial success, the coauthors mined data from Weber's day for the 426 counties within Prussia (much of which is modern-day Germany). By using county-level data, the researchers avoided confounding religion with geography, politics, and other social institutions. They first showed that the higher the percentage of Protestants in a county, the greater its literacy rates. They next revealed that more Protestant areas were also wealthier—a pattern that persists to this day. Finally, they demonstrated that differences in literacy could explain the differences in the wealth of counties.

"But these were not differences that education couldn't overcome," says Becker. "When we compared Protestant regions to Catholic regions that for some historic reason ended up with the same level of education"—say, areas such as Münster, where Jesuits pushed education during Germany's Counter-Reformation—"the two regions had no difference in economic success."

"And so education matters a lot in economic development," says Becker. Attempting to synthesize his message with Weber's, he concludes, "If anything, the Protestant work ethic makes people think ahead and realize that they need to educate themselves." ■

Sascha O. Becker and Ludger Woessmann, "Was Weber Wrong? A Human Capital Theory of Protestant Economic History," *The Quarterly Journal of Economics*, May 2009.

SOCIAL ENTREPRENEURSHIP

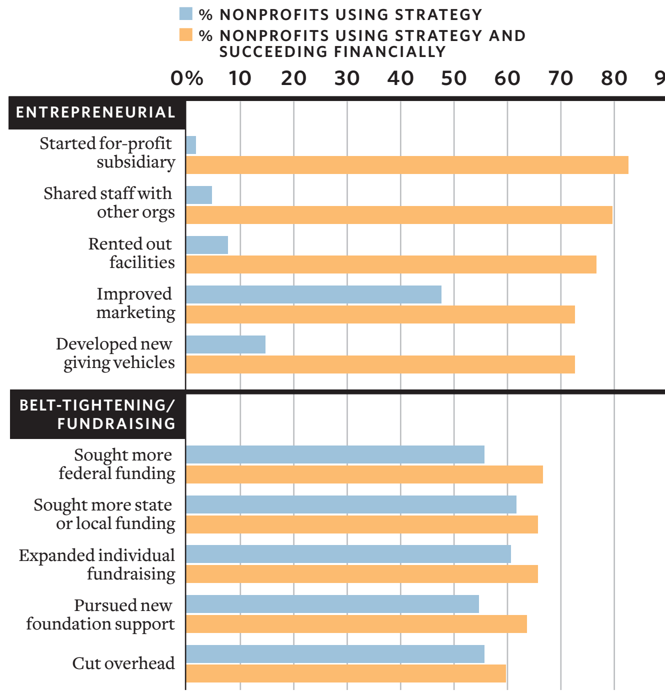
How to Survive the Recession

▶ "We got hit really bad last year," says Richard Rose, the producing artistic director of the Barter Theatre in Abingdon, Va. One of the nation's longest-running professional theaters, the Barter launched the careers of actors such as Gregory Peck, Kevin Spacey, and Patricia Neal. Despite its rich history and successful track record, "we probably lost about $550,000 on a $6 million budget last year," says Rose. "For 2009, we cut our budget back by a million dollars."

The current recession has left few nonprofits unscathed and has hit theaters particularly hard, reports the most recent communiqué from the Johns Hopkins University Listening Post Project. "But nonprofits are responding with incredible courage, creativity, and conviction," says Lester M. Salamon, lead author of the communiqué and director of the Center for Civil Society Studies at Johns Hopkins University, which guides the projects.

To take the temperature of the U.S. nonprofit sector, the Listening Post Project regularly surveys more than 1,400 local nonprofits. In its most recent survey, the project found that 83 percent of its 363 respondents were feeling some financial pinch, with close to 40 percent describing their stress as "severe" or "very severe." A "perfect storm" of declining revenues, increased costs, shrinking endowments, and reduced cash flows is to blame for their financial discomfort, write Salamon and his coauthors.

Yet by deploying smart coping strategies such as conservative financial management, intensified fundraising, belt-tightening measures, and entrepreneurial expansion, almost three-fourths of the nonprofits in the Listening Post study have been able to maintain or actually increase the number of people they serve. Of these coping strategies, says Salamon, entrepreneurial expansion tends to be the least used but most successful. As the figure at right shows, for example, few nonprofits undertook such entrepreneurial feats as starting a for-profit subsidiary, sharing staff with other organizations, or renting out their facilities. But those that did experienced greater financial success than did organizations that stuck to more tried-and-true belt-tightening and fundraising strategies.



The Barter Theatre, for instance, is using several entrepreneurial strategies to weather the recession. "Our budget is about 80 percent earned income because we're in a region that is so remote and not wealthy, with no big corporate sponsors," Rose explains. "And so we are forced to earn our way."

To this end, the organization is launching a national tour of its production of *Of Mice and Men*, which is expected to bring in $600,000 in 2009, says Rose. The theater has also adjusted its offerings to the changing mood and makeup of its audience. "From the standpoint of programming, we went for what I call 'comfort food,'" he says. "And we're actually having a record season. We're doing *The Wizard of Oz*, which we would normally stay away from. We usually appeal to adults, not families, and we do theater that's a little more challenging. But we knew we would be relying on local audiences rather than tourists." The theater is also avoiding more depressing productions, says Rose: "If you are having a tough life," as people are during this recession, "you want to escape it in the theater."

The theater's need to earn revenue may actually protect it from the recession, suggests Salamon: "Fundraising strategies that involve commercial income are better than charitable income."

Despite its uptick in activity, the theater has had to make some difficult sacrifices. "We had to cut half a dozen personnel, and we're also using fewer freelancers," says Rose. "And so a lot of us are working a lot harder."

Although cutting back on staff and staff time may be a good coping strategy in the short term, says Salamon, "I'm not sure that I would recommend it for the long term." More generally, he says, "while nonprofits have been able to protect clientele and continue services [during the downturn], we are at real risk of pushing organizations beyond the breaking point." ■

Lester M. Salamon, Stephanie L. Geller, and Kasey L. Spence, "Impact of the 2007-09 Economic Recession on Nonprofit Organizations," Johns Hopkins University Center for Civil Society Studies, Listening Post Project Communique No. 14, 2009.

HUMAN RIGHTS

Why They Stayed

When Hurricane Katrina hit the Gulf Coast in late August 2005, Nicole M. Stephens didn't think the media, government officials, or even relief workers understood the plight of the people left behind. "The question everyone asked was, 'Why did those crazy people *choose* to stay?'" says Stephens. She also noticed that no one actually bothered to ask this question of the so-called stayers.

As a graduate student in psychology at Stanford University, though, Stephens decided to ask the stayers herself. In her new study of the stayers, the leavers who evacuated, the aid workers who helped both groups, and the lay observers who watched from a distance, she and her coauthors reveal that the stayers did not think they had a choice, because they did not have the resources to get away.

Yet the stayers did not see themselves as passive victims, either. Instead, "they viewed themselves as being strong, actively helping each other, being connected to others, and showing their faith in God," finds Stephens. Meanwhile, however, "many observers and relief workers thought that the stayers were just being foolish and lazy, and so tended to blame them for their suffering," she says.

Stephens and her coauthors tie the widespread empathy failure to deeper cultural and material differences between the mostly black and working-class stayers on the one hand, and the mostly white and middle-class leavers, aid workers, and observers on the other hand. Compared to the stayers, the leavers, aid workers, and observers have more education and income, greater access to news, more reliable transportation, and wider-ranging social networks. Reflecting their greater resources, these wealthier Americans generally believe that the right way to act is to be an influencer—that is, to make choices, to exert control, and, when necessary, to seek more hospitable situations.

Meanwhile, reflecting their more modest endowments, the stayers generally believe that the right way to act is to be an *adjuster*—that is, to draw upon their inner strength, to reach out to others and God, and to make the best of bad situations.

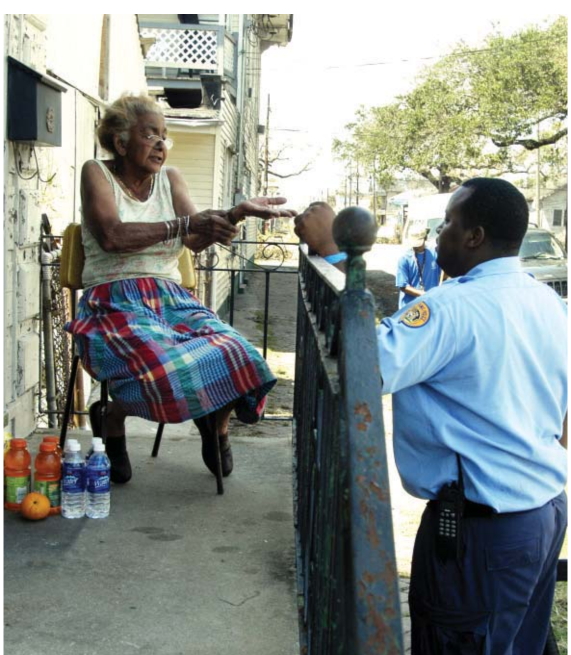
"The assumption among the rescuers and observers is that everyone could have chosen to evacuate," says Stephens. "But you need a lot of resources to be that kind of person."

For their research, Stephens and her team first asked 144 Katrina aid workers (including Red Cross volunteers, police officers, and FEMA officials) and 317 online survey respondents to use three words to describe leavers and three words to describe stayers. In a second interview study, the researchers invited 38 leavers and 41 stayers to describe what happened to them before, during, and after the storm. Assistants who were blind to the researchers' hypotheses then classified the participants' answers according to themes such as influencing, adjusting, and overall positive or negative tone.

Although rescue workers described stayers more positively than did lay observers, their responses were still quite negative, as well as different from how the stayers described themselves. "You might expect that people who volunteer or go into a helping profession would have more empathy and a better understanding of the people to whom they are giving aid," says Stephens.

"There was some percentage of the survey respondents who did use words like 'stupid,' 'passive,' and 'inflexible,'" acknowledges Russ Paulsen, executive director of the Hurricane Recovery Program at the American Red Cross. "But it wasn't clear to me that those were rescue workers. I've never heard a Red Crosser refer to people who stayed as stupid or any of those other adjectives. We do ask people to tell their Katrina stories as part of the healing process, but [whether they stayed or left] doesn't affect how we treat them." ■

Nicole M. Stephens, MarYam G. Hamedani, Hazel Rose Markus, Hilary B. Bergsieker, and Liyam Eloul, "Why Did They 'Choose' to Stay? Perspectives of Hurricane Katrina Observers and Survivors," *Psychological Science*, July 2009.



New Orleans residents who weathered Katrina had a different understanding of their actions from that of rescuers.

PHOTOGRAPH COURTESY OF FEMA/LIZ ROLL

SOCIAL RESPONSIBILITY

Diversity Brings the Dollars

Guacamole Doritos, Wasabi Funyuns, and Mountain Dew Code Red (which is targeted to African-Americans) are three fruits of PepsiCo Inc.'s diversity initiatives. These initiatives, which include mentoring programs and support groups, attempt to harness employees' racial and ethnic heritages for competitive advantage. So far, the company's efforts seem to be paying off: For instance, PepsiCo attributed part of its 8 percent growth in 2004 revenues to its diversity programs, reports a Nov. 14, 2005, article in *The Wall Street Journal*.

Like PepsiCo, many other corporations have claimed that ethnically and sexually diverse workforces generate more creative ideas, tap into more markets, and develop better solutions than do more homogeneous ones.

But the plural of *anecdote* is not *data*, and so the business case for diversity has often foundered for want of systematic evidence.

This summer, however, sociologist Cedric Herring crunched the numbers and discovered that, indeed, more diverse workplaces have higher revenues, more customers, larger market shares, and greater relative profits (see figures on page 11).

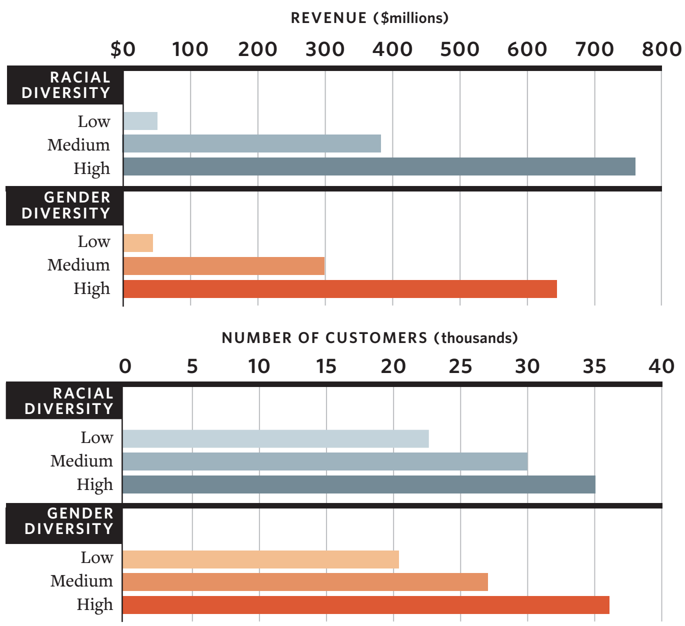
"What I've done is use real data from real organizations to document what people have speculated about for quite some time," says Herring, a professor at the University of Illinois at Chicago. Results like his are "the holy grail for people who care about the return on investment for diversity."


SUSTAINABILITY
AS COMPETITIVE ADVANTAGE

Herring's real data came from a nationally representative sample of 506 U.S. businesses that responded to the 1996-1997 National Organizations Survey. He first created indexes to capture the diversity of each business's workforce, and then classified businesses as low, medium, or high in racial and gender diversity. Next, he tested the relationship between levels of diversity and companies' self-reported sales revenues, numbers of customers, market shares, and profitability for the past two years.

Even after statistically controlling for businesses' legal form (proprietorship or corporation, for example), workforce size, organization age, industry, and region, Herring found that both racial and gender diversity still redound to the bottom line. He cautions, however, that his study does not establish that diversity *caused* the better business outcomes. "You need data over time to make the causal argument," he says. "But I do believe that that's the story."

With Corporate Diversity Come Dollars and Customers



Herring's study likewise did not test why diversity and corporate success are linked. Yet he ventures that diversity "allows companies to think outside the box by bringing previously excluded groups inside the box." Although the mixing of demographics might initially inspire some conflict and inefficiencies, "they're often worth it to get new ideas, better ways of thinking, and more productive practices."

In economic downturns, diversity programs are often among the first to get the ax. But this is "short-term thinking," says Herring. Instead, "organizations need to make that extra effort to recruit and retain all different kinds of people from different backgrounds" to tap into their talents and get an edge on competitors.

"Diversity is not just about protecting special classes of people," he adds. "It can be beneficial to the entire organization." ■

Cedric Herring, "Does Diversity Pay? Race, Gender, and the Business Case for Diversity," *American Sociological Review*, April 2009.

GOVERNMENT

Medicare Saves Lives

For decades, Americans have squabbled over whether the government should expand Medicare, maintain its current scope, or cut it altogether. But their debates have suffered for lack of an answer to one vital question: Does Medicare make a difference?

A new study shows that Medicare indeed makes a difference for seriously ill patients—and that difference is the one between life and death. Following the fates of more than 400,000 people admitted to California hospitals through their emergency departments, a team of economists finds that patients who are just over 65 years old—and thus eligible for Medicare—are 20 percent less likely to die within a week of admission than are their slightly younger counterparts who do not yet qualify for the government insurance.

"Until this paper, no one thought that health insurance of any kind affected something as straightforward as death rates," says David Card, a professor of economics at the University of California, Berkeley, and the study's lead author. "Fact is, if you show up at the hospital without insurance, they'll take you in and give you fairly decent treatment."

But the Medicare-eligible set seems to get somewhat better treatment, Card and his colleagues find. Their study reveals that patients between 65 and 70 have more procedures and higher bills than do patients between 60 and 64, hinting that Medicare-aged patients are receiving more care. This closer attention may give Medicare recipients an edge on surviving their trip to the ER, Card says.

Card's study also suggests that Medicare recipients fare better than not only the uninsured, but also the privately insured. "A lot of people do not have very good insurance," he explains. In addition, hospital staff must sometimes waste valuable time untangling what exactly a particular insurance company will cover for a particular patient before delivering aid. "But hospitals don't have to call up to find out what Medicare can do," he notes.

For their study, Card and his coauthors took advantage of the fact that some 80 percent of Americans enroll in Medicare within a few days of their 65th birthdays. As a result, the researchers could apply a sophisticated statistical test that compares the outcomes of people on either side of the Medicare-age line—that is, people ages 60 to 64 vs. people ages 65 to 70.

To make sure that these two groups were equally sick, the researchers restricted their study to people who reported to hospital emergency departments with strokes, heart attacks, respiratory failure, and other life-threatening illnesses. "These events bring people to the ER regardless of their insurance coverage," Card says. The team then examined which of these very sick people survived a day, a week, a month, and other time intervals up to two years. Their findings demonstrate that even nine months later, 20 percent more Medicare-aged patients than younger patients were still alive. ■

David Card, Carlos Dobkin, and Nicole Maestas, "Does Medicare Save Lives?" *The Quarterly Journal of Economics*, May 2009.

Fred Krupp

has helped accomplish what some thought was impossible—getting businesses to go green voluntarily.

PHOTOGRAPHS BY PETER MURPHY

By any measure, Fred Krupp's 24-year tenure as president of the Environmental Defense Fund (EDF) has been a success. The organization's budget has jumped from $3 million to more than $100 million, the staff has grown from 50 to 400, and membership has expanded from 40,000 to more than 500,000. More important, under Krupp's leadership EDF has become one of the most important power brokers in the environmental arena.

Krupp has accomplished all of this by relentlessly focusing on an important insight—that economic incentives can be used to entice businesses to behave in environmentally friendly ways. It's like using the carrot instead of the stick to get people to do what you want them to do. This social innovation has garnered its share of critics, but Krupp is unwavering, and by all indications his approach is gathering momentum.

In this interview with *Stanford Social Innovation Review* Managing Editor Eric Nee, Krupp explains why EDF is putting so much energy into getting a cap-and-trade bill regulating greenhouse gases on President Obama's desk. Krupp goes on to discuss the lessons EDF has learned from its pioneering partnerships with corporations like FedEx and McDonald's. And last, Krupp explains why EDF opened an office in Beijing 15 years ago and why he is optimistic that China is on the right environmental path.

Eric Nee: Why is EDF putting so much energy into getting Congress to pass a cap-and-trade bill to regulate greenhouse gas emissions?

Fred Krupp: We've never solved an air pollution problem anywhere in the world without putting a limit on the amount of pollution that can be spewed into the air. What the Waxman-Markey bill would do is just that for carbon dioxide and other greenhouse gases. It would realign the incentives so that entrepreneurs, innovators, and engineers are all invested in finding ways to reduce carbon emissions and lower greenhouse gases. The profit motive is what's gotten us into this fix. If we turn the profit motive on its head and make it more profitable to put out less global warming pollution, then we have a good chance to lick this problem.

EDF was instrumental in forming the U.S. Climate Action Partnership, a coalition that includes large manufacturers and nonprofits that supports cap-and-trade legislation. There are, however, many companies still

opposing this type of legislation. Why have a few companies been convinced that it's in their interest to support restrictions on emissions while so many other companies have not been convinced of that?
Some companies, like GE, which played a leadership role in pulling together the partnership, say, "Give me the rules and we'll figure out how to profit from them." They've got the self-confidence that they can profit from change. As for the companies that don't support this measure, I'm not sure that they can see over the horizon. Perhaps they don't believe in global warming. Or maybe they're cynical enough to believe that they can profit more with the status quo. That certainly describes Exxon. They've clearly decided that they can be more profitable in a world that does not limit carbon emissions, so they have opposed efforts to go forward.

Even though many companies have not yet signed on to cap-and-trade legislation, never in the history of our country has there been such broad support for environmental legislation. There wasn't anything like the amount of business support for the Clean Water Act or the Clean Air Act that there is for this piece of legislation. The fact that five nonprofits got together with 25 big businesses and agreed on one blueprint for environmental legislative action, and that Henry Waxman and the House Committee on Energy and Commerce actually took the blueprint and used it to shape their legislation, is unprecedented. Combine that with the fact that we now have a president who talks about the need for America to put in place a declining market-based cap on carbon pollution. It's not a foregone conclusion that it'll get past the Senate. But with a lot of work, it can happen.

Why should carbon offsets be included in the bill when many believe they are not an effective way of solving the problem of greenhouse gas emissions?
Today, in the voluntary unregulated United States, we don't have any laws regulating what an emissions reduction is, so there is not a good way to police offsets. One of the important things about passing a law is that instead of allowing anyone to go into the marketplace and assert that they've got a carbon offset for sale, the Waxman-Markey bill would give the government the authority to certify what offsets meet the test of science. We need to have the legislation empower a scientific advisory panel to verify the scientific basis of different types of offsets and establish a scientific process for their certification.

Once the standards are set, we go from a situation where there are legitimate questions to one where there are important opportunities. By allowing farmers to get payments when they change their practices, we can harvest additional low-cost ways to reduce emissions. As long as they're legitimate and scientifically verifiable, the more opportunities we harvest to reduce emissions, the better. That will bring down the price, which is a good thing. The goal is not to get a high price for carbon. The goal is to get a high quantity of emissions reduction.

The price of reducing sulfur, for example, became much less expensive than was predicted because a market for reduction was created. Was that good or bad? It was great! In 2005 the second President Bush, who opposed serious action on climate change, allowed EPA to order an additional 70 percent reduction in sulfur emissions over the original 50 percent cut. Why? Because the price of doing so was low. And the reason the price was low was that we harnessed entrepreneurs and used the profit motive to inspire a hunt for low-cost ways to reduce pollution. So offsets, when they're real and only when they're real, can help get deeper cuts.

Are you putting more resources into the political arena now that you have an eco-friendly president?
We set our priorities based mostly on two things: What are the most important problems and where can we realistically make transformational changes? We were working to get a climate bill through Congress in the Bush administration. President Obama's call for a comprehensive energy and climate law and a market-based decline and cap on global warming pollution means that we have increased our spending in the legislative arena because our chances of making it happen are much higher.

Let's talk about your partnerships with companies to help them operate in a more environmentally sustainable way. Which partnerships have been the most successful and why did they succeed?
We define success as partnerships that result in real industry-wide transformation. Our partnership with FedEx is one of those. We went to them to talk about developing a truck that would have 90 percent fewer emissions and travel 50 percent farther on a gallon of fuel. We set up a competition that encouraged vehicle producers to deliver the winning prototype. Within two years of our partnership, there wasn't a truck trade show in North America that didn't have hybrids being shown. At this year's leading truck industry trade show there were 35 different hybrid truck options available and more than 100 different companies had fleets that were using them. That's an example of industry-wide transformation.

Another partnership that resulted in industry-wide transformation was our work with McDonald's to eliminate the use of human antibiotics as growth promoters in poultry. Very soon after McDonald's got its poultry suppliers to stop this practice, the four biggest chicken producers in the United States stopped using these drugs as growth promoters.

The keys to success are having the commitment of the CEO, a clear end goal that EDF and our corporate partners agree on, and clear measures of what success is: Is it tons of greenhouse gas avoided, or is it cost savings? We live by the maxim that you manage what you measure. To ensure objectivity we, unlike a consultant, do not take funding from our corporate partners. This enables us to push them beyond their comfort zone and it keeps us focused on achieving transformational results. Transparency is also essential. From the very first partnership we did with McDonald's, we agreed that this wasn't going to be secret intellectual property and that we would be able to share all the results, tools, and best practices with others in the same industry to encourage widespread and rapid change. The companies that work with us know that because it's in our written agreement.

What's an example of a partnership that didn't work?
Our early partnership with Starbucks was not as successful. It did result in them adopting the use of a corrugated cardboard

sleeve, but the partnership was intended to revolutionize the coffee cup. One of the things we learned from that experience was that we needed to include the supply chain in the conversation early on. With McDonald's, we actually brought the poultry manufacturers into the discussion before McDonald's decided to change their purchasing standard. And with FedEx we got the truck manufacturers involved early on.

How has the economic downturn affected companies' willingness to engage in these kinds of projects?

We've seen more interest, attention, and efforts in recent months by companies to be greener. Companies are focusing more on cutting costs and increasing efficiency, and environmental innovation, it turns out, is often one way to do that. Pollution is waste, and waste usually costs money. So smart companies know that cutting environmental impacts frequently means a leaner, meaner, and more efficient operation.

We do not take funding from our corporate partners. This enables us to push them beyond their comfort zone and keeps us focused on achieving transformational results.

All of the companies that you partner with are based in the United States. Why don't you work with foreign firms?

It's probably because most of our staff is here in the United States so it's easier to work with CEOs who are also here. We do have a global impact, however, because our partners are generally multinationals. Wal-Mart's supply chain includes more than 60,000 companies around the world, so our work with them has a huge international impact. There's no reason why, with more resources, we won't expand to companies headquartered outside the United States, and if we found a project like that, I think we'd be quite enthusiastic about undertaking it.

One of the countries you have made an effort to expand into is China.

We've been active in China for 15 years. The reason that we've been there for so long is that China and the United States are the G2 when it comes to climate change. Because of the size of our economies and the reliance of both of our countries on fossil fuels, we are the main sources of greenhouse gasses. Although it's true that the United States has to lead, China must follow shortly thereafter.

Are you optimistic or pessimistic about the role China will play in solving global warming?

I am optimistic. China has been steadily building its ability to manage its environmental problems effectively. We can see evidence of this in how they've reformed their environmental laws, enhanced the enforcement of their environmental laws, and made pollution control a top priority in evaluating government officials for promotion. China's people are like our own people. They want a clean and healthy environment, and they expect their government to deliver it.

In China, what type of programs do you get involved in and what types of programs do you avoid for political reasons?

Like the United States, it turns out that market forces in China are a key driver of environmental outcomes. So recognizing the power of the market, EDF has been working with a very powerful set of Chinese partners to harness those forces. For example, we've worked with Wal-Mart to change their master contract to require suppliers to certify compliance with Chinese environmental laws and regulations. We're working in the rural provinces to change agricultural production practices to reduce greenhouse gas emissions. In those provinces, we can help measure the changes and bundle them together and market them for sale in the emerging carbon market. We're also working with the government to reform the penalties for noncompliance with major pieces of environmental legislation to make sure that it's more expensive to pollute than it is to comply.

But we are mindful of the fact that we are guests in the country. We do see a desire by the government to improve and the opportunity for us to learn about what works and what doesn't work. The decisions that the United States and China make are going to shape the future of the planet. We're doing the best we can to see that the environment is factored into all those decisions.

Do you have any plans to become involved in other large developing economies, such as Brazil, India, and Russia?

Yes. We are already working with partners in Brazil, India, and Russia. They are all very important countries. In Brazil, we've been working for 20 years to stop the deforestation of the Amazon. We've helped them come up with a proposal for how Brazil could reduce its deforestation and get a benefit from the emerging global carbon markets for doing so. What most people don't know is that although China and the United States are the two biggest emitters of global warming pollution, Indonesia and Brazil are numbers three and four. Fifteen percent of the global emissions of greenhouse gases come from deforestation.

Although EDF works around the world, your primary focus is still on the United States. Will that change in the future? Will EDF become a multinational nonprofit?

I've now been here long enough—24 years—to see a trend line. Every year we do more and more things that are international. Certainly, global warming can't be solved by the United States alone. So we are spending an enormous amount of time and energy, for example, on the Copenhagen process and have been increasingly involved in the intensive climate talks that we helped start in the 1980s. Our fisheries work is now expanding down to Mexico and the Caribbean, and I think will expand further internationally. I doubt we will be opening up offices in a lot of other countries, because I just don't think that's necessary. But I think we will be partnering with existing organizations in many countries, and, over time, this trend of doing more international work will continue and maybe accelerate. ■

INNOVATION: IDEAS IN ACTION

innovati

WHO ARE THE NEXT VISIONARY LEADERS?

WHAT PRACTICAL APPROACHES WILL IMPROVE THE AMERICAN ECONOMIC LANDSCAPE?

For 30 years, CFED, the Corporation for Enterprise Development, has applied innovation to expand economic opportunity for all Americans. CFED is committed to finding bold solutions for real-world challenges. To identify and support the next generation of leaders and strategies that will help individuals and families build assets and achieve surer financial footing, CFED launched the innovation@cfed initiative.

cfed
expanding economic opportunity

In collaboration with CFED, the inaugural class of Innovators-in-Residence, individuals with proven social and economic improvement strategies, will achieve widespread impact and visibility. Selected from a large national applicant pool, they receive a stipend of up to $50,000, technical support and a virtual or on-site CFED residency to refine and grow their innovations to marketable scale or to advance them through practical application.

Dennis J. Campa
Building Powerful Savings Strategies
San Antonio, Texas

Building on his work as director of the City of San Antonio Department of Community Initiatives, Campa will launch comprehensive savings programs aimed at children and adults that will integrate personal investment and financial education as a mandatory component of services. Savings opportunities will be linked in creative ways to innovative loan products, education, car ownership and housing stabilization with the aim of helping thousands of individuals and families achieve economic self-sufficiency.

Stacey Epperson
Delivering High-Quality Manufactured Homes
Morehead, Kentucky

Manufactured homes are safe, affordable and energy efficient alternatives to traditional site-built homes. Working with Frontier Housing, of which she is president and CEO, Epperson will launch a new business distributing high-quality manufactured homes to local customers via nonprofits nationwide. Frontier, which is based in Morehead, KY, will train and assist other nonprofits so their manufactured homes appreciate in value and build financial security. The new business will serve as an aggregator between local nonprofits and the manufacturer to secure volume discounts and ensure product quality.

Mindy Hernandez
Applying Behavioral Sciences to Real-World Challenges
Washington, DC

Applying her expertise as a senior research specialist for Princeton University and Ideas42, a project of the Institute for Quantitative Social Science at Harvard University, Hernandez will connect research in the behavioral sciences to real-world challenges in the asset-building field. She will offer behavioral consulting and design research with CFED and practitioner organizations. With an emphasis on data, documentation and knowledge dissemination, Hernandez's work will lead to improvements that make policy, market and practice initiatives work more effectively.

Eugénie FitzGerald
Reaching the Underbanked
San Francisco, California

As a driver of the Checkfree San Francisco project, FitzGerald will work with the offices of Mayor Gavin Newsom and City Treasurer José Cisneros, the San Francisco Chamber of Commerce and SF Works, a nonprofit housed within the Chamber, to shift the City of San Francisco and other employers to a paperless payday, a win-win for employers and employees alike. This initiative will connect workers with bank accounts or stored value cards and represents the next phase in the City's push to enroll underbanked residents in financial and saving services that will help them save time and money and build assets.

Support for the Innovators-in-Residence program is provided by the AARP Foundation, the Bank of America Charitable Foundation and Phyllis Friedman and Friedman family members and friends.

In addition to the Innovators-in-Residence program, CFED highlights 12 Innovative Idea Champions whose promising ideas range from green job creation to health care affordability plans. Both Innovators-in-Residence and Innovative Idea Champions will showcase their work at the 2009 Innovation Summit, held October 29 in Washington, DC as part of CFED's innovation platform.

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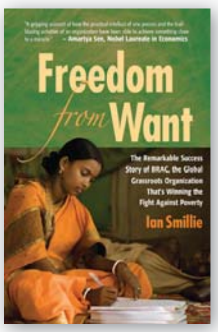
Visit www.innovation.cfed.org to learn more and to join our dynamic international learning community.

The House That BRAC Built

Review by Sally Osberg

FREEDOM FROM WANT: The Remarkable Success Story of BRAC, the Global Grassroots Organization That's Winning the Fight Against Poverty
Ian Smillie
300 pages, Kumarian Press, 2009

Neither those who knew the debonair young Fazle Abed nor Abed himself would have imagined how the course of his life would change forever with the deadly cyclone that hit Bangladesh in 1970. Killing as many as 500,000, the event was profound in its impact, devastating the lives of more than 3 million people, leading ultimately to the bloody liberation of Bangladesh, and launching one Shell Oil executive on an entirely new career path.



In *Freedom from Want,* Ian Smillie chronicles the life and times of the newly formed nation of Bangladesh, its largely impoverished people, and an organization that would come to master both the art and science of development. Told as a laudatory case history, the book proceeds predictably. Smillie begins by tracing Abed's privileged upbringing and early career, digressing to document the Abed family's Bengali roots and the British imperialism that would lead ultimately to independence for Bangladesh, but quickly establishes a narrative pattern: Issue by issue, we learn how BRAC experiments with education, health care, and income generation; figures out how to integrate and scale up effective programs and enterprises; and drives to ensure lasting benefit to those served.

This is a well-told account of an unlikely NGO leader who learns early on that development is a humbling business. Abed and his colleagues, many of them extraordinary individuals themselves, graduate quickly from their early experiences with relief—distributing blankets, food, water, and medical supplies to those suffering in the cyclone's aftermath—to take on the challenge of a society defined by endemic poverty, with its underlying conditions of illiteracy, the oppression of women, and hand-to-mouth livelihoods.

That the organization's first giddy forays at development fall short of expectations is not all that surprising. What sets BRAC apart, however, is an unflinching willingness to acknowledge failure. Early attempts to reform education and shape new fishing and farming cooperatives considered "not too difficult to achieve," for example, fall flat, with BRAC reporting "disappointing results" and sobering lessons back to its funder, Oxfam, a practice as remarkable then as it would be today. For Smillie and others, BRAC is a learning organization, committed to investing whatever it takes and as long as it takes to figure out what works. Failures are grist to the mill of better ideas, and that mill a laboratory for systemic solutions.

Smillie's account of BRAC's entry into microfinance, the field identified with Muhammad Yunus, founder of Bangladesh's Grameen Bank and winner of the 2006 Nobel Peace Prize, sounds one of the book's only sour notes. After establishing the roots of microlending in 18th-century Irish Loan Funds, Smillie ultimately characterizes as "fantasy" current popularization of this "idea of a miracle cure that will emerge fully formed from the womb, end poverty, and be completely sustainable from the outset." He juxtaposes a microfinance paradigm that begins and ends with the "loan as the point of departure, on the assumption that development will follow" with BRAC's more enlightened view of the development enterprise as first and foremost. For Smillie, Yunus' dictum that the "borrower knows best" and the Grameen model wind up reinforcing "subsistence activity," whereas BRAC's superior method advances scalable enterprise. As an admirer of both Abed and Yunus, BRAC and Grameen, I found this invidious comparison off-putting, even demeaning to the towering achievements of both men and their organizations.

But this is a minor cavil. Smillie's account of Abed's journey and BRAC's stunning record over nearly four decades evokes Amartya Sen's characterization of "development as freedom." BRAC has proven through its holistic approach that poverty can be defeated, lives transformed, and prosperity sustained. Moreover, the organization has insisted that the innovations necessary to drive such change achieve scale. "Small is beautiful," says Abed, "but big is necessary." Today, BRAC generates 80 percent of its nearly $500 million annual budget, exceeds $1 billion in its microfinance lending, and operates in multiple countries, including Afghanistan, Pakistan, and the Sudan. *Freedom from Want* pays well-deserved tribute to an exemplar of indigenous development and its magnificent leader. ■

Sally Osberg is the president and CEO of the Skoll Foundation. Before joining Skoll, Osberg was executive director of the Children's Discovery Museum of San Jose.

Good Guy vs. Good Guy

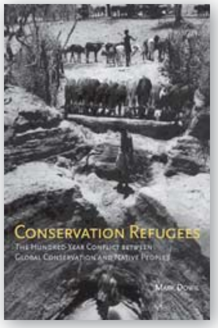
Review by Bill Adams

CONSERVATION REFUGEES: The Hundred-Year Conflict Between Global Conservation and Native Peoples
Mark Dowie
341 pages, MIT Press, 2009

In October 2003, Sayyaad Soltani, the elected chair of the Council of Elders of the Qashqai Confederation in Iran, gave a plenary speech to the World Parks Congress in Durban, South Africa. He spoke of the relentless pressure on his nomadic pastoral people in the 20th century: "Pastures and natural resources were seized from us by various governments. Our migratory paths were interrupted by all sorts of 'development' initiatives, including dams, oil refineries, and military bases. Our summering and wintering pastures were consistently degraded and fragmented by outsiders. Not even our social identity was left alone."

Bill Adams is Moran Professor of Conservation and Development in the Department of Geography at the University of Cambridge. He is the author of *Against Extinction: The Story of Conservation*, and co-editor of *Decolonizing Nature: Strategies of Conservation in a Post-Colonial Era*.

This speech, cited at length in Mark Dowie's thought-provoking book *Conservation Refugees*, tells a story that is, tragically, repeated by indigenous people the world over. For centuries, governments, adventurers, settlers, and corporations have thrust aside anyone who stood between them and the resources and territory they craved.



In Dowie's version of this story, however, the villains are not big business or corrupt governments, but biodiversity conservationists. Those driven by the desire to protect biodiversity inevitably find themselves trying to do so in the remaining areas of undeveloped land, which is almost everywhere occupied by people making their living by hunting, gathering, grazing livestock, or farming. In their enthusiasm for nature, conservationists have too often ended up riding roughshod over human rights.

In particular, Dowie targets the conservation "BINGOs" (big, international, nongovernmental organizations), a group of five philanthropic organizations: Conservation International (CI), the Nature Conservancy, the World Wide Fund for Nature, the Wildlife Conservation Society, and the African Wildlife Foundation. Together, these organizations control budgets of many hundreds of millions of dollars. They are also conduits of billions of dollars more from bilateral and multilateral aid donors such as the World Bank, the European Union, and the United States Agency for International Development. The BINGOs' scientific expertise, their capacity to plan and implement projects on the ground, and their ability to conjure up vast investments make them agencies of great power.

Dowie is something of a doyen of the global anticonservation movement, following articles in *Orion* magazine in 2005 and in the *Stanford Social Innovation Review* in 2006, which indicted the BINGOs for their close and cozy links with corporate interests and their uncaring and destructive impact on indigenous people. In *Conservation Refugees*, Dowie returns to the fray. In alternating chapters Dowie describes the displacement of a range of different peoples (including Maasai, Ba'Aka, Basarwa, Mursi, and Karen) with brief descriptions of field visits and in-

DOG-EARED

Staying Vibrant and Curious

Review by Jacqueline Novogratz

SELF-RENEWAL: The Individual and the Innovative Society
John W. Gardner
176 pages, W.W. Norton & Co., 1995

I remember meeting John Gardner as if it were yesterday. It was 1989 and I was an MBA student at the Stanford Graduate School of Business. I was sitting in a preview session of upcoming classes when a tall, graceful, elderly man in a gray suit and a fedora stood up to speak. His figure was lithe and his step was easy. He carried a sense of gravitas that made it impossible not to listen to what he had to say. "Why do civilizations rise and fall?" he asked. "Why do some people stop growing at age 30, just going from work to the couch and television, when others stay vibrant, curious, almost childlike, into their 80s and 90s?"

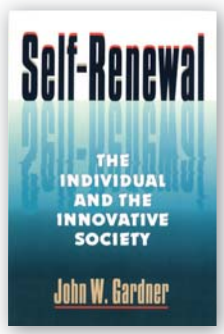
I was hooked. I knew I needed to know this man, for it was clear to me even then that he would play an important role in my life.

The grace and humility with which John spoke that day belied his powerful career. He'd been secretary of health, education, and welfare under President Lyndon Johnson, and president of the Carnegie Foundation. He'd written numerous books. And most thrilling from my perspective, he was an extraordinary social—and serial—entrepreneur, having founded Common Cause, Independent Sector, and the White House Fellows. Later, while in his 80s, John founded Experience Corps to encourage older people to become more engaged in civic life.

While at Stanford, I resolved to read everything that John had written. No book of his affected me more than *Self-Renewal: The Individual and the Innovative Society*. Written in 1963, it still held great relevance for me in 1989. Having just reread it 20 years later, I was struck again by how John's words of wisdom resonate even more strongly today.

In *Self-Renewal*, John writes about the contribution of individual innovators in renewing societies. Although he doesn't use the language of social entrepreneurship, he describes it beautifully. He writes of the importance of a "tough-minded optimism," stamina, and taking risks. He stresses the need for experimentation, failure, and, yes, for love. People who continually renew themselves have the capacity for innovation. John writes that "they can see life through another's eyes and feel it through another's heart."

At Acumen Fund, a nonprofit venture capital firm for the poor that I founded in 2001, we call this quality "moral imagination" and believe it is critical to solving the tough problems of poverty. Indeed, much of Acumen's value system is linked to John's philosophy. He believed in the creative potential of markets and the need for good governance. He stressed the importance of human dignity and understood it in the context of our global community. He warned of the pitfalls to renewal, counseling innovators to "travel light" and be aware of vested interests and the allure of traps that make us pull back from our ultimate goals.



I miss John, though I feel forever blessed for having been mentored by him. He had an enormous impact on my life, encouraging me to focus on being interested rather than interesting, and to commit to something bigger than myself. I know that I'm among hundreds, if not thousands, of people who feel that way, and together we form an army working toward similar ends. There can be no greater legacy than that. ■

JACQUELINE NOVOGRATZ is the founder and CEO of Acumen Fund, a nonprofit venture capital firm investing in enterprises that alleviate poverty. Before Acumen, she founded and directed the Philanthropy Workshop and the Next Generation Leadership program at the Rockefeller Foundation. Novogratz is the author of *The Blue Sweater: Bridging the Gap Between Rich and Poor in an Interconnected World*.

terviews. These are curiously lackluster accounts, highly romanticized, and surprisingly vague about the specifics of human or environmental history, but their cumulative force is indisputable. In between, Dowie offers sharp summaries of the strange world of international conservation, including the American obsession with "wilderness" and the associated need to "protect" nature by keeping local people out (but, too often, letting scientists, tourists, timber concessionaires, oil or mining companies, and corrupt politicians in).

Whether conservation is, as Dowie argues, Public Enemy No. 1 for indigenous people, is more difficult to judge. At various points he quotes very large but highly speculative figures for the total number of people displaced from protected areas (a lack of good data makes it hard to know the real extent of conservation displacement). And it would be a mistake to focus so much blame on conservationists that it distracts attention from the very real harm caused by corporate and government enclosure of rural land for commercial purposes.

The case against conservation is not novel—books like Marcus Colchester's *Salvaging Nature*, published in 2002, for example, have traversed this terrain before. The difference now, perhaps, is that Dowie sees glimmers of light at the end of the tunnel, citing places where relations between indigenous people and conservation have improved (for example, in relations between the Kayapo and CI in Brazil), and where the rights of indigenous peoples have been upheld (for example, in the legal decision in December 2006 that the eviction of the San from the Central Kalahari Game Reserve in Botswana was illegal). Times are, perhaps, changing.

This is, as Dowie is at pains to say, a "good guy vs. good guy" story—very often, Western indigenous peoples' activists vs. Western conservationists, both speaking for their clients with passion and good intentions. Despite the clogged arteries of corporate conservation, new partnerships must be possible. Although Dowie remains suspicious, and the international indigenous peoples movement activists he quotes are even more so, it is possible to imagine conservation taking full account of human rights. But as this book makes clear, a lot will have to change if this is to happen. ■

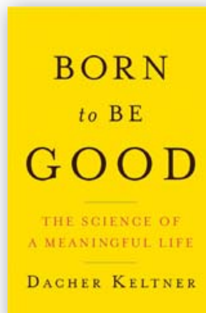
Rethinking Human Nature

Review by Maria Surricchio

BORN TO BE GOOD: The Science of a Meaningful Life
Dacher Keltner
352 pages, W.W. Norton & Co., 2009

The conventional view of human nature is that self-interest is our strongest instinct. In this narrative, every action and decision that *Homo economicus* makes—the choice of a mate, what work to pursue, whom to befriend—is ultimately driven by self-interest. Even child rearing is merely a way to propagate one's genes.

This view of human nature is not without merit. Most people would agree that self-interest is a powerful driver of human activity. But is this a complete and accurate portrait of human nature? What about people's proclivity to act cooperatively and altruistically? Is it the case, as Adam Smith and T.H. Huxley believe, that prosocial behavior is solely a cultural construct created to curb our supremely selfish base impulses?



These are the questions that Dacher Keltner tackles in his new book, *Born to Be Good: The Science of a Meaningful Life*. Keltner, a professor of psychology at the University of California, Berkeley, strives to unearth clues about the neglected dimension of human nature: "positive emotions that bring the good in others to completion"—emotions that he believes have been serving mankind for millions of years.

As a postgraduate student Keltner worked with Paul Eckman, a pioneer in the study of emotions and their relation to facial expressions. Eckman's research built on the work of Charles Darwin, who in 1872 authored *The Expression of the Emotions in Man & Animals*, in which he tried to uncover the evolutionary value of facial expressions. Eckman's research proved the universality of both facial expressions and the physiological changes they create. It established that human emotions are genetically encoded physiological processes that are shaped by our evolutionary past, and that these emotions include not just the basic emotions (like anger and fear), but also what he calls higher order "ethical emotions" such as sympathy and awe.

In *Born to Be Good*, Keltner takes Eckman's insights one step further by proposing a new model of human nature that turns the conventional one on its head. Instead of the survival of the fittest, Keltner proposes the survival of the kindest. He demonstrates that in early human society prosocial behavior was the most effective survival strategy. Early humans needed to take care of "vulnerable, big-brained offspring," a job that required two parents. As a result, males evolved to know their own offspring and to take care of them, which in turn created a fragile sexual monogamy. The hunting of stronger, faster, and ferocious prey required teamwork, which in turn facilitated the development of communication. Gossiping amongst the lower ranks of early humans put pressure on high-status members to build consensus rather than rule through force.

Keltner argues that emotions work to promote kindness, humanity, and respect between people, which is of immense evolutionary value. Embarrassment is a way of restoring social order by eliciting reconciliation and forgiveness after a transgression. Touching triggers a cascade of emotions, such as devotion, trust, and even a sense of reward. Compassion holds a special place in the canon of emotions (for Darwin it was the strongest instinct). Its physiological embodiment—via the many touch points of the vagus nerve—encompasses our communicative system, heart rate, and release of oxytocin, which sends feelings of trust, love, and warmth throughout the body.

In *Born to Be Good*, Keltner shows that people receive significant emotional rewards when acting for the benefit of others, even when it means operating against one's self-interest. Our ability to work for the greater good comes from fundamental instincts honed over millions of years. If Keltner is right, and I think he is, our most modern problems will be solved by our most ancient responses. ■

Maria Surricchio is a brand and business strategist who helps triple-bottom-line businesses grow. She was formerly director of innovation at Kraft Foods Inc., where she led the transformation of the company's coffee sustainability strategy in Europe working in partnership with the Rainforest Alliance.

A Light in City Hall

How one newcomer to the Los Angeles mayor's office mixed government with philanthropy to make change

By Torie Osborn

In 2005, a new day arrived in Los Angeles, when citizens elected the charismatic Antonio Villaraigosa as their mayor. Serving on his transition team, I remember surveying his winning coalition at a meeting: East and South Los Angeles organizers and West Side philanthropists; Asian and Armenian immigrant businesspeople; and corporate, labor, and nonprofit leaders from every culture and community.

"Come dream with me, Los Angeles," the new mayor said in his inaugural speech. And a great many of us did.

Mayor Villaraigosa sought creative solutions and silo busting inside and outside government. His signature phrase was "strategic partnership," and, unlike most government officials, his vision always included nonprofits and philanthropy. In short order, he hired me to a newly created position as liaison between the mayor's office and the philanthropic sector.

For 20 years before I took that post, I labored in the social sector, where my relationship to government zigzagged from advocate, to negotiator, to parallel funder. But never did our shared public-private concern for the common good or our work tackling the same issues (such as poverty or AIDS) result in joint planning or coordination. Some other cities were beginning to change that, and I wanted Los Angeles to join them.

True to my independent sector roots, I spent weeks conducting research for my position. I hoped to create a "new problem-solving civic philanthropy," in the words of Susan Berresford, who was then CEO of the Ford Foundation. Armed with a Durfee Foundation fellowship, a $1 million grant from the Annenberg Foundation, and a part-time assistant funded by Wells Fargo & Company, I moved into my small City Hall office right next to the mayor and prepared to make history.

But as it turns out, history isn't made in a day.

Two Planets

My first few weeks at City Hall left me breathless (and sleepless), as I made the cultural jump from philanthropy to government. Philanthropy is quiet and thoughtful, and above all it values strategizing, planning, evaluating, and exercising the freedom to choose. But government is noisy, unruly, reactive, crisis driven, and tightly constrained. There are no exit strategies.

The first jolt to my nonprofit-trained system was witnessing the tragic results of "starve-the-beast" antigovernment fiscal policies. Unbelievably, the Los Angeles city government was far worse off than the chronically underfunded nonprofit sector: Nobody had enough staff, and nobody had up-to-date technology. Within a few weeks, my assistant was reporting to three additional people who did not have enough staff-support dollars. People worked like heroic maniacs against ridiculous odds.

Illustration by Brian Stauffer

Meanwhile, federal and state dollars declined precipitously while needs skyrocketed. In four short years, for example, federal job-training funding for Los Angeles dropped from $100 million to $35 million. And 30 years of capped property taxes—the legacy of 1978's Proposition 13—had forced California cities to choose between investing in, say, fire or police departments. Los Angeles chose firefighters, whereas San Diego opted for police. And so San Diego burns while Los Angeles watches its children die in gang violence.

No wonder my government colleagues looked to philanthropy for financial support. I had told them about the Mayor's Fund to Advance New York City, which is a

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fundraising office that supplements the annual New York City budget. In 2006, the fund had raised $75 million.

But I knew that the idea wouldn't fly in Los Angeles. New York enjoys a long-standing civic partnership between its political and philanthropic elite. In Los Angeles, though, foundation leaders are wary of government. Over and over again, they recounted the sad tale of Pittsburgh, where foundations stepped up to fill a $40 million shortfall in the city's budget, only to be asked to repeat the favor one year later.

"We are *not* government's ATM," one foundation executive said in a huff. Instead, the philanthropy leaders of Los Angeles wanted to lend their nonmonetary resources, such as policy and problem-solving know-how, convening power, and contacts. In exchange, they wanted me to help them cut through red tape and to shield them from absurd funding demands.

Philanthropy is quiet and thoughtful, and above all it values strategizing, planning, evaluating, and choosing. Government is noisy, unruly, reactive, and tightly constrained.

Taming government bureaucracy so that philanthropy can act, however, has proven to be an elusive goal. In 2006, for example, Latino immigrant families using a South Central farm had to relocate, leaving behind 100 fruit trees. The owner wanted to develop the property and was about to bulldoze the fruit trees when a local foundation trustee stepped in. Aware that Los Angeles lacks enough trees in public spaces, the philanthropist came up with the perfect idea: donate the fruit trees to one of Los Angeles' tree-starved parks.

Despite support from every elected office and the entire parks commission, the trustee's beautiful idea fell to the buzz saw of bureaucracy. An obscure regulation required fruit tree donors to deposit $300,000 as protection against future liability. The trustee did not want to spend precious funds that way. As a result of the government's inflexibility, the trees ended up gracing the rich grounds of the private, suburban Huntington Gardens.

Layers of tough truth revealed themselves in another example. After the city rolled out a public safety initiative to clean up skid row, a coalition of service providers and advocates brought a seemingly easy dilemma to me. The police were ticketing homeless people on skid row for littering, but there weren't any trash cans! The advocates mapped out 11 street corners for trash bin placement, and I went to work.

But it took one full year to deliver the trash cans, during which time many more homeless people received littering tickets. Although the city had state bond funds to buy state-of-the-art, environmentally sound, damage-proof, $400-a-pop trash cans, it had zero funds for additional trash pickup service. And no amount of political will could change that until the next fiscal year.

SOME SUCCESS

After a few months in my new job, I had this weird nightmare: My task was to figure out how to move a monstrous sloth mired in mud. From a distance, the beast seemed indomitable, but as I approached, I saw hunger and desperation on its face. That remains my sharpest image of the tragedy of local government today.

A friend of mine says it is no coincidence that the word *labor* stands at the center of the word *collaborate*. Bridging divergent worlds takes a lot of work.

But things do move over time. Philanthropy has managed to play a critical role on two fronts in Los Angeles government: poverty and the environment.

On the poverty front, the mayor's "opportunity agenda" to fight poverty could not have happened without that Annenberg grant, which funded policy research, best practice convenings, and an unprecedented integration of budgets across five city departments to build housing for the poor. Three other foundations—Conrad N. Hilton, Weingart, and the California Endowment—have helped broker collaborations between Los Angeles city and county governments to end homelessness. Historically, those two government bodies have been more interested in suing each other than in working together. But steadily, they are cooperating to implement housing projects for the chronically homeless.

And on the environment front, the Liberty Hill Foundation united scrappy environmental justice groups with sophisticated mainstream organizations to form GREEN LA, a coalition that is helping to determine the city's green policy agenda. Partly because of GREEN LA's efforts, the city's green building code, rainwater reclamation plan, climate action goals, and Port of Los Angeles clean truck plan are making Los Angeles a bold international leader in environmental policy.

As I write this, the world has turned. America has a new community-organizer-in-chief who understands the need to engage all hands on deck to solve our problems. The economic crisis is also bringing us together. Foundations are suffering losses in their endowments, and, many hundreds of meeting hours later, they are feeling more empathy for government. And the federal government may finally fund solutions for urban problems that have been left to fester far too long. Both government and foundation leaders are talking about fiscal reform—even tax reform. And in Los Angeles, more former nonprofit leaders have joined the mayor's senior staff. To support a public gang prevention program this past year, two foundation leaders hit the phones and raised more than $1 million in about six hours.

While Mayor Villaraigosa is entering his second term, I am moving back to my true home in the nonprofit world. But I am leaving a legacy in city hall: a new Office of Strategic Partnership, which three foundations (Ahmanson, Weingart, and Annenberg) and the mayor's office co-created. Its mission includes gang reduction, education, and the mayor's international relations agenda. It has the first precondition for success—several staff!—and hired a new director this summer. The foundations are looking ahead to institutionalizing the office beyond the current mayor's tenure. And I am satisfied to report that a new "problem-solving civic philanthropy" is finally coming to life in Los Angeles. ■

Microfinance for the Most Marginalized

How small loans are tipping the social scales for Roma people

By Christopher J. Varady & Mila Gavrilova

"Roma people just don't want to work," a Bulgarian man recently told a Catholic Relief Services assessment team worker. "Look at the scoundrels! They don't want to work like us—get up early in the morning, go to bed late at night."

All over the world, marginalized groups such as the Roma (also known by the derogatory term Gypsies) face barriers not only to education and social standing, but also to making a living. In Bulgaria, for example, many people refrain from residing near or purchasing goods from Roma people. Because Roma people are rumored to be untrustworthy, Bulgarians will not do business with them.

This centuries-old pattern of discrimination has resulted in ghettos, extreme poverty, and poor health for the Roma in Bulgaria, as well as throughout Europe. Exclusion, poverty, and illness in turn keep Roma people from sharing in Bulgaria's economic growth. As a result, the Roma are trapped in a vicious cycle that reinforces the impression that they are incapable of being successful members of society.

Meanwhile, mainstream media do not cover the plight of Roma people. And in the rare instances when they do cast a light on these communities, it tends to be a negative one that perpetuates society-wide misgivings about the group.

A recent project in Bulgaria, however, is at once enriching Roma people and dispelling negative social stereotypes about them. Called the Alliance for Inclusive Business Development of Roma Communities in Bulgaria, the project combines microloans—that is, very small business loans to the poor—with antidiscrimination programs in a one-two punch that is breaking the cycles of both poverty and exclusion. To deliver this program, the alliance draws on the varying skills of its partners: Catholic Relief Services, the United States Agency for International Development (USAID), and local microfinance institutions Mikrofond EAD and USTOI (a Bulgarian term connoting strength and stability).

All over the world, governments, businesses, and nonprofits are using microfinance to build a bridge between poverty and prosperity. Yet purely financial interventions seldom address the social dynamics that help keep marginalized groups impoverished. The alliance, however, shows that when combined with antidiscrimination efforts, microfinance can be an effective tool not only for poverty alleviation, but also for society-wide attitude change.

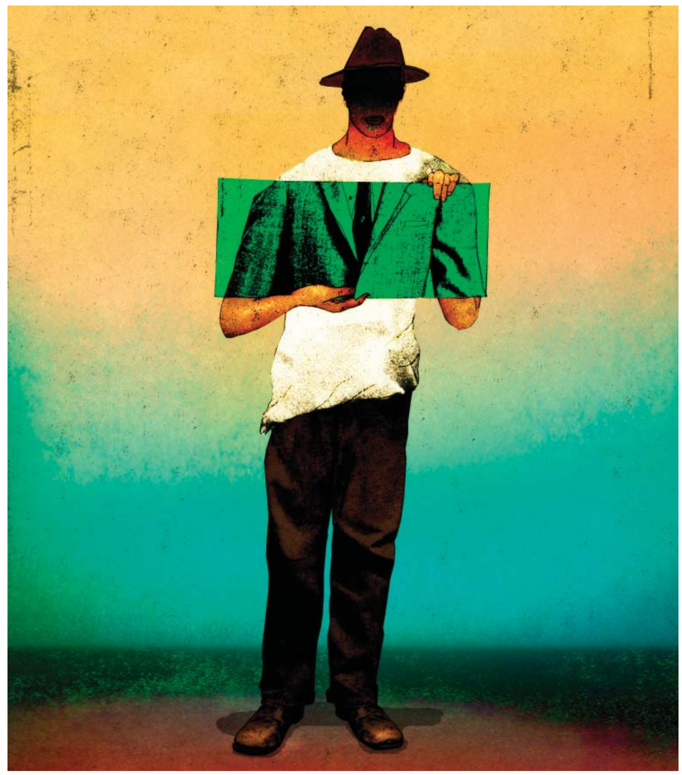

ILLUSTRATION BY BRIAN STAUFFER

Unlikely Entrepreneurs

To launch the Roma microfinance project in 2006, the alliance first raised more than $1 million from USAID, Mikrofond EAD, and USTOI. The alliance then made small loans to 796 promising Roma microentrepreneurs for both start-up businesses and existing microenterprises. The loans averaged about $1,100 each and incurred local interest rates (an average of between 12 percent and 15 percent annually).

For the project to succeed, alliance leaders had to adapt their lending techniques to Roma culture. Roma people typically lack collateral, and their businesses are often not formally registered with government authorities. To offset risk, the loan officers used a solidarity lending method whereby the entire group guarantees the loans made to each individual member. Given the Roma's close social connections, this method proved particularly effective and contributed to an extremely low portfolio-at-risk rate. In addition, leaders of the Roma community promoted loans to potential

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Mila Gavrilova was the head of Catholic Relief Services/Bulgaria. From her base in Sofia, she now oversees program quality for all CRS projects in Europe and the Middle East.

new clients and acted as their guarantee. In this way, the microloans actually strengthened the social connections within the community.

The alliance's lending methods work well: Only 0.39 percent of the borrowers were late for their payments for more than 30 days, compared with 7 percent for other Bulgarian borrowers at USTOI and Mikrofond.

Using successful borrowers as case studies, the alliance then supported several initiatives to reduce discrimination and to demonstrate that Roma people indeed contribute to Bulgaria's economic growth. For instance, in seven provincial cities, a prominent sociologist moderated a series of roundtable discussions, which allowed Bulgarians to examine their stereotypes of and prejudices against the Roma. Bulgarian sociologists, members of the media, and young people participated in the discussions, debating Roma people's place in business and society. The roundtables revealed a widespread view of Roma people as little more than a source of cheap, unskilled labor. The discussions also allowed participants to explore ways to improve the public image of the Roma.

To educate Bulgaria's future leaders, the alliance also sponsored several university students to write research papers about how entrepreneurship can lead to better integration of the Roma into Bulgarian society. The alliance presented these papers not only in the universities, but also in the mainstream media, further dispelling myths about the Roma people.

With a one-two punch, a new alliance mixes microfinance with antidiscrimination programs to break the cycles of poverty and social exclusion for Bulgaria's Roma people.

Meanwhile, the alliance worked to educate Bulgarian journalists about how to report on Roma people in positive ways. A series of three roundtable discussions with Bulgarian journalists helped them understand how Roma microentrepreneurs struggle to create successful businesses.

Although most journalists still held negative opinions of the Roma at the end of this intervention, they nevertheless acknowledged the ability of the media to show a side of Roma life that challenges long-held beliefs. The journalists immediately appreciated this new angle, which broke clichés and opened the door for new stories.

In addition, the alliance used mass media to improve the image of Roma people throughout Bulgaria. In one initiative, the project produced a 30-minute documentary that showcased the day-to-day lives of four successful Roma entrepreneurs. Two of the entrepreneurs, a hairdresser and a convenience store owner, discussed discrimination against Roma people in Bulgaria, highlighting the business and social challenges that they have faced and overcome.

Upon viewing the documentaries, many in the audience of students and journalists were surprised by the success of the featured microentrepreneurs. Their surprise led to a discussion of how Bulgaria, as a new member of the European Union, needs to rethink its views on its minority populations.

By the end of the project, 55 percent of the businesspeople surveyed by a local opinion polling organization thought that helping Roma people start a business is a good strategy for integrating their communities into Bulgarian society. Respondents also believed that the Roma could compensate for their lack of education and technical skills by running small businesses—which would also provide income for their families. Businesspeople also thought that microentrepreneurship could help teach Roma people how to work with various state institutions such as tax agencies and licensing authorities. And although most Roma businesses remain in the informal sector, several have become formally registered businesses, particularly in the cases of taxis and market stalls.

MAKING THE MAINSTREAM

Since the inception of the Alliance for Inclusive Business Development of Roma Communities in Bulgaria, nearly all clients have used their increased income to meet critical demands of their families, report their loan officers and case managers. As a result of their growing businesses, many Roma microloan recipients have been able to enroll their children and grandchildren in school, often to learn English and computer skills.

For instance, one project beneficiary, Ivan Shopov, worked for a taxi company for years and had to pay the company for both radio equipment and customer leads. With two loans of about $3,500 each, he was able to purchase a vehicle and start his own taxi business in Sliven, a city of about 115,000 in the southeast corner of Bulgaria. Through careful planning and long hours, Shopov now has two taxis and is in the process of applying for a third loan to enhance his business. By offering a necessary service to his town, Shopov is not only building his own business, but also dismantling his neighbors' stereotypes about the Roma people.

Perceptions of Roma people have indeed improved since this project started, notes Pavel Velev, USTOI's director. "Especially in the marketplaces, Roma entrepreneurs and Bulgarian traders are working side by side and now share a sense of solidarity based on similar interests and lives." He admits, however, that the attitude of the general population is changing much more slowly.

As Roma people use microfinance to establish themselves as entrepreneurs, they may lay the groundwork for larger shifts in perception throughout Bulgarian society—and perhaps throughout Eastern Europe as well. With their newly established credit histories and ability to pay taxes, apply for business licenses, and obtain identity cards, many Roma microentrepreneurs who used to operate outside of the formal economy are now joining the mainstream. The alliance not only has lifted many families out of poverty, but also has started to break the discriminatory beliefs that trap Roma people in a cycle of poverty and exclusion. Microfinance thus can be a tool not only for poverty alleviation, but also for empowering marginalized groups to dispel derogatory beliefs about them. ■

A Nature State of Mind

Systemic problems call for systemic solutions, which bioregions are best at delivering

By Spencer B. Beebe & Ian Gill

In 2009, the federal government is taking important steps to restore both nature and the economy. Congress is developing global warming and energy legislation. President Barack Obama is prioritizing green projects in the nation's economic recovery plan. The Environmental Protection Agency (EPA) says that greenhouse gases may endanger public health and welfare.

Yet true restoration—environmental and economic—will not come from congressional legislation, top-down stimulus money, or EPA rulings. Instead, restoration will come from a shift in the relationships between people and their ecologies, as well as from the businesses, policies, and cultural changes that will arise from this shift.

Today, people everywhere face a convergence of economic, energy, social, and environmental crises on a scale and immediacy never before imagined. And people in many places can use capital, technology, and policy to stabilize the economy, tighten energy security, alleviate poverty, and improve environmental conditions. But reliable peace and prosperity will elude humankind unless we change our relations with each other and the environment.

A good first step toward this lofty goal is to start thinking at the scale of "nature states." Also called bioregions, nature states are defined by their social and geographic coherence, rather than by state or national borders. People organize themselves by nature states, such as the Pacific Northwest, the Mississippi Delta, and the Chesapeake Bay.

By recognizing each nature state's distinctive environmental and geographic characteristics, its citizens can preserve those qualities while building businesses and organizations that take advantage of them. This nature state thinking has the potential to fuel more bottom-up local and regional innovations, which will in turn produce more of what our country really needs, not just more of what we think we want.

Nature states also provide a good scale at which to work. Only systemic solutions solve systemic problems. Cities, counties, and even most states are often too small for systemic solutions, and the world is almost always too big.

This article's coauthor, Spencer Beebe, first learned about regional thinking in Central and South America while running the Nature Conservancy's International Program, and later while founding Conservation International. It was here that he observed intact, ancient wilderness supporting regional economies—for example, regions of Costa Rica prioritized the smaller, long-term economic returns of sustainable forestry over the big, short-term profits of large-scale environmental destruction. Beebe then brought the thinking back to the West Coast, where he has refined it over the last 20 years at Ecotrust, a Portland, Ore.-based organization that helps local communities achieve what author Jane Jacobs called a more "reliable prosperity." Bringing together public, nonprofit, and for-profit organizations, Ecotrust both develops and executes new solutions to poverty and environmental problems.

ILLUSTRATION BY BRIAN STAUFFER

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IAN GILL is the president of Ecotrust Canada, an affiliate of U.S.-based Ecotrust, whose mission is to further a conservation-based economy.

The idea of nature states is not new. Even the EPA talks about them, and organizations such as the Natural Step and the Resilience Alliance promote them as part of the larger idea that the more diverse and intimate the connections between nature, economy, and community, the more resilient all three might be.

What is new is the current opportunity to use nature state thinking. Down economies need fresh thinking to reinvigorate the market. Innovators who are bound together by a shared affinity for place may more readily supply the systemic solutions to the many challenges that all people now face.

THE NORTHWEST EXPERIMENT

Our nature state—an area comprising the temperate rainforest coasts of Northern California, Oregon, Washington, British Columbia, and Alaska—has proven to be a fertile ground for regional business and cultural experimentation. Among Ecotrust's innovations, for instance, is ShoreBank Pacific, a regional bank that prioritizes community building and stewardship of the environment in its lending. The bank, with $200 million in assets, remains resilient in the downturn.

In our nature state, entrepreneurs who respect nature and adopt a get-rich-slow approach are thriving, even now. One example is New Seasons Market, a chain of grocery stores in Portland that caters to the region's reputation for friendliness and delicious locally grown food. The chain carefully chooses its employees, using a lone PhD to interview and hire each person. By understanding the region's psychology and ecology, the business has developed an almost cultlike following.

New Seasons is not alone. Carbon sequestration businesses tied to our nature state's forests, clean energy companies connected to our diverse climate, and green construction companies reliant on our abundant natural resources are prospering here. Even politicians and financiers are getting on board with bioregional innovation: A select group led by the governor of Oregon and calling itself "The Oregon Way" is promoting regional, nature-based innovation to leaders in Washington, D.C., with the very real result of green stimulus dollars coming back to Oregon.

THE NATURE STATE RULES

Although people are still writing the rules of nature state thinking, certain guidelines have emerged. One is to measure success in nature's indicators, not dollars. The singular natural event that has defined the Northwest for thousands of years, for instance, is the return of the salmon—millions and millions of them. People and salmon codeveloped here, together with the forests and grasslands. Salmon decline tells us that our farming, fishing, forestry, transportation, and energy systems are eroding our ecosystems. When 15,000 to 30,000 big, healthy Chinook salmon die within days of entering the Klamath River, as they did three years ago, we know our shepherding of the region is failing.

A second known nature state rule is to build compact cities and towns based on "smart growth" principles and living buildings. Smart growth is an idea that first grew among architects and planners of the 1970s, and it is now a worldwide movement that promotes an ethos of quality housing for people of all income levels, distinct and walkable neighborhoods, compact building design, energy-efficient buildings, and open spaces. Many city governments have adopted smart growth principles and successfully reinvigorated their cities. Portland is a great example: The local government implemented smart growth more than two decades ago, and now Portland is booming. It is considered to be one of the most livable cities in the nation.

The third nature state guideline is to develop local sources of energy through major investments in a renewable, efficient, diverse, and distributed energy system. Our region—famous for hydropower—is also making major investments in wind, solar, and wave energy. Wind companies are filling Portland's new-business docket, and wind towers are appearing on farms and open spaces throughout the region. Oregon now generates 20 percent of its energy from wind, with a plan to generate 50 percent by 2025. In addition, regional entrepreneurs and universities are aggressively pursuing wave energy to take advantage of the powerful ocean tides of the Pacific Northwest.

We know that nature state thinking is not a model for everyone, but it can be profitable, better for the Earth, and better for local communities everywhere.

A final nature state rule is to restore entire landscapes and watersheds—not just pieces of them. Organizations such as the EPA and the U.S. Forest Service are now funding the restoration of entire marine and land habitats. Some of this land—particularly land that is close to cities—must also be restored or earmarked for organic and local farming. This will promote the rise of businesses that bring healthy food and products to market—particularly new online companies that matchmake farmers with restaurants, grocery stores, and individuals.

PEOPLE IN PLACE

In the midst of the current economic crisis, businesses and individuals who are embracing nature state thinking in our region are testing their own persistence and resilience. Growth for organizations such as New Seasons was modest in 2008. But at a time when the S&P 500 lost more than one-third of its value, any growth is a sign of health.

We know that nature state thinking is not a model for everyone, but it can be profitable, better for the Earth, and better for local communities everywhere. Regional thinking, when matched with regional action, can be more powerful than data, science, money, and technology.

The goal today must be to participate—to innovate, invest, and inspire—in the redesign of regional economy and society. In the years and decades ahead, those communities that have a reliable water supply and access to local, cheap building materials; that encourage dense development within urban growth boundaries surrounded by open space, healthy forests, and productive farms; and that develop diverse, locally distributed sources of energy are the ones that will flourish.

But first, each nature state must release the energy of people in place. That happens through the words of interesting individuals and the rise of original organizations. Even the slightest nod of encouragement will help deploy regional solutions to regional problems. Failure to do so promises only more destruction. ■

Ideas › First Person

Great Teachers on the Fast Track

To save the nation, the United States needs alternative teacher training

By Susan Colby & Tia Martinez

A NATION'S ECONOMIC GROWTH is directly linked to its people's educational attainment, relate Claudia Goldin and Lawrence Katz in their recent book, *The Race Between Education and Technology*. Yet since 1970, the United States has put fewer and fewer teenagers through secondary school. As a result, the country is quickly losing its competitive edge.

To reform education, we know that we must get great teaching and great learning in every classroom. But to do this, Americans must first reject an endemic and persistent myth: Traditionally certified teachers are the most effective educators. This is especially critical because over the next five to seven years, fully half of current teachers are predicted to retire. The nation faces the challenge of recruiting millions of talented new people to fill these empty slots, with many openings in low-income areas where kids have been under-taught for years. Traditional certification—by which the vast majority of teachers undertake lengthy and costly studies at university-based teacher programs, followed by state licensing exams—is simply not the best way to get there.

Thomas Kane, Jonah Rockoff, and Douglas Staiger are among a number of researchers to make this point. Their recent work, published in *Education Next*, followed the performance of elementary school teachers in New York City between 1998 and 2005. They found that students taught by traditionally certified teachers fared no better in math than did students taught by alternatively certified or even uncertified teachers. And in reading, traditionally certified teachers' students performed only slightly better than alternatively certified teachers' students.

How can we raise quality and lower barriers to entry for promising teachers? The answer is to develop alternative pathways into the profession. One way to fast-track talent is to allow novice teachers to earn full-time salaries while completing their certifications, as does the Boston Teacher Residency (BTR). BTR gives teaching candidates 13 months of on-the-job training in Boston's public schools, as well as mentoring. Since 2004, more than 200 BTR graduates have earned their teaching licenses, as well as their master's degrees in education from the University of Massachusetts Boston.

Another option is to break universities' monopoly on teacher preparation, as High Tech High (HTH) is doing. Started in San Diego in 2000, HTH is a network of charter schools that train students for the technological age. To combat a shortage of math, science, and engineering teachers, HTH applied to the state of California and eventually won licensing as a graduate school of education. Now the program can offer its own master's degrees. HTH teacher interns must have a relevant bachelor's degree and competence in their subject matter. During their first two years on the job, interns complete additional coursework at the high school to earn their California teaching credential. HTH expects to credential about 30 teachers by 2010.

Attracting and developing superior teachers also requires rigorous evaluation once they enter the classroom. The best evaluation systems focus on student learning and teachers' professional development, rather than on censuring or tenuring teachers. School districts in Houston, Tennessee, and Toledo, Ohio, are leading the way, evaluating teachers according to their students' test scores and classroom observations of their teaching.

The fate of our nation is in the hands of our teachers. As baby boomers age and half the current teaching force retires, Americans will feel the pinch of too few teachers even more. But there is a solution: programs that efficiently and effectively identify and train teachers. These programs give future teachers the experience they need without sacrificing quality in the classroom. ■

ILLUSTRATION BY BRIAN STAUFFER

SUSAN COLBY is a partner with the Bridgespan Group and leads the nonprofit organization's education strategy consulting team.

TIA MARTINEZ is a Bridgespan manager.

The Madoff Philanthropic Implosion

How a Jewish charity is responding to one of the biggest scams in history

By Max L. Kleinman

When news of the Bernie Madoff investment scandal broke in late 2008, a wave of anti-Semitic sentiment quickly followed. "The greed and corruption of the Jews has brought the financial system and the American economy low," wrote a reader named Jeanrenoir on Portfolio.com, according to the Anti-Defamation League. Web sites, newspapers, and magazines in both the United States and Europe likewise hosted racist vitriol and conspiracy theories.

Yet if there was any conspiracy, it was that of Madoff cannibalizing his own community—the Jewish community—of much of its net worth. His Ponzi scheme bilked hundreds of millions of dollars from a long list of Jewish charities, including Yeshiva University, Hadassah, the American Technion Society, the Elie Wiesel Foundation, and Brandeis University. Long before the Madoff scandal hit, these organizations were already struggling with the most grievous recession in decades.

As the CEO of the largest Jewish philanthropy in New Jersey, I and my staff have had to adjust our course in response to Madoff's fraudulent dealings. After first learning of the Madoff scandal, I immediately huddled with my management team to learn whether we had invested any of our resources with Madoff or Madoff-related funds. We had not, so we sent e-mail blasts to all of our donors, donor-advised fundholders, and supporting foundation trustees to alert them to this fact. Fear is fueled by questions of trust and reliability, and we wanted to reinforce our credibility as quickly as possible.

We did not know, however, who among our donors had invested with Madoff, other than the Sen. Frank Lautenberg Charitable Foundation, whose loss of $13.5 million was heavily publicized. I decided not to try to identify the Madoff investors in our community because I was concerned about their psychological vulnerability. Successful people pride themselves on their financial savvy and sophistication, and I imagined that many of our donors who were seduced by Madoff were deeply humiliated.

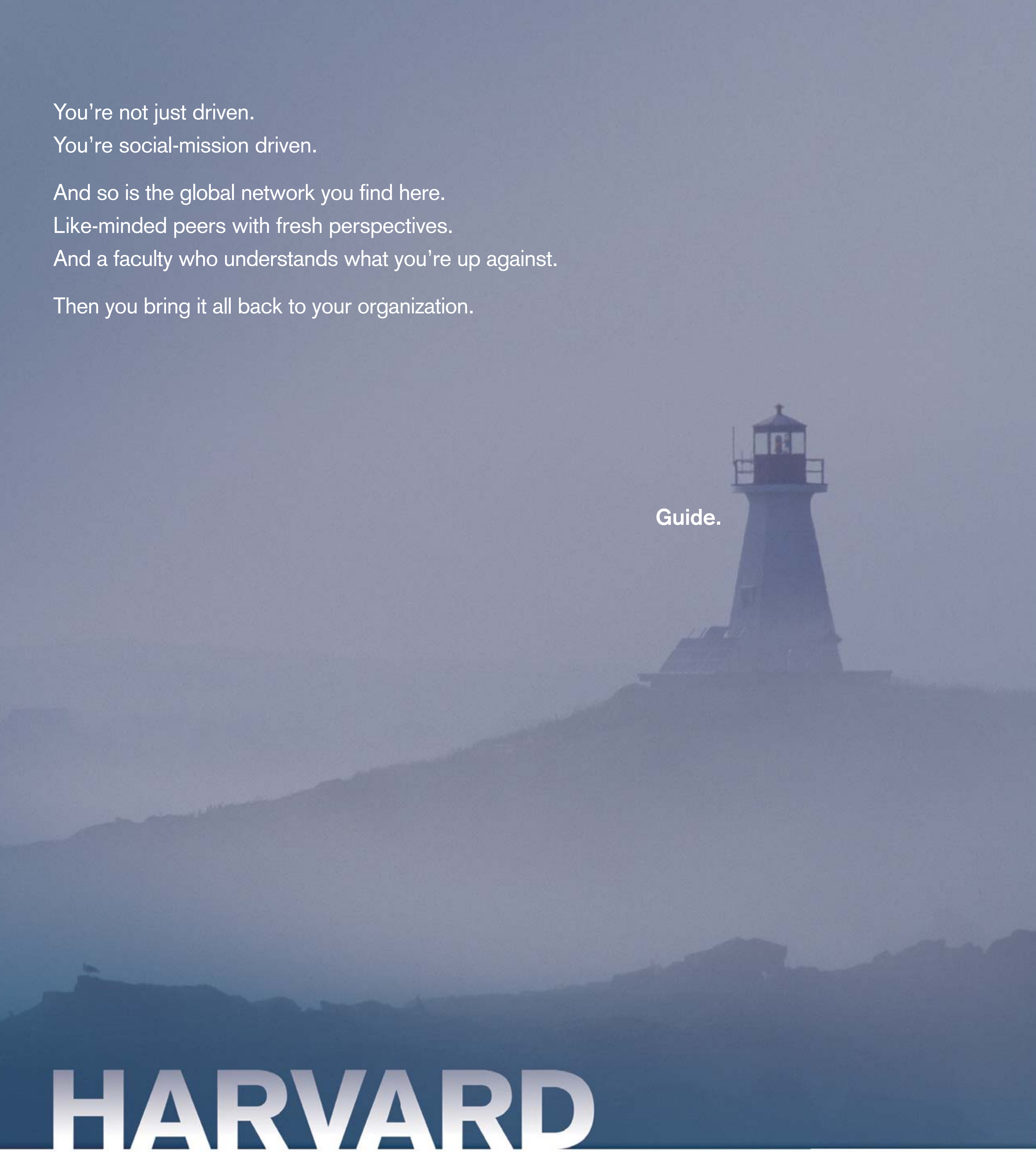
Over the next several weeks, however, news of who among our major donors were Madoff's victims began to surface. In one instance, on the day I was to submit a $2 million endowment request for a senior citizen transportation program, I found that the prospective donor had lost to Madoff all the assets in her charitable foundation investment. Eventually, we did receive a list of all of Madoff's victims from *The Wall Street Journal* and New Jersey's *Star-Ledger*. More than a dozen were major donors to us, with annual contributions of more than $600,000. Subsequently, I met or spoke with most of them, offering our moral support and assistance.

MAX L. KLEINMAN is the CEO of United Jewish Communities of MetroWest New Jersey.

Illustration by Brian Stauffer

In response to our newly straitened circumstances, our agency, United Jewish Communities, has undertaken several measures to save money and cut costs. We met with peer agencies in New Jersey to consolidate operations and services. For example, we combined three community relations agencies into one regional entity for northern New Jersey, saving more than $250,000 annually. Internally, we developed a blueprint to decrease the size of our operations by $1.25 million through cuts to top executives' salaries, a freeze on all other salaries, 10 furlough days for all staff, and a reduction in the number and cost of our events, among other factors. These measures did not avert the need for us to lay off more than a dozen personnel, however. To them we are providing outplacement services, severance, and other benefits. Perhaps because of this, our morale has held up well, as evidenced by feedback collected by our human relations department and the climate at staff meetings.

Jews have been trained over the generations to practice *Tzedaka*—a commandment to give back. This does not mean giving charity, but fulfilling justice, which is mandatory, not voluntary. That is why Jews have been in the forefront of bettering our society, the Madoff scandal notwithstanding. ■


You're not just driven.
You're social-mission driven.
And so is the global network you find here.
Like-minded peers with fresh perspectives.
And a faculty who understands what you're up against.
Then you bring it all back to your organization.
Guide.
HARVARD

Catalytic Philanthropy

Despite spending vast amounts of money and helping to create the world's largest nonprofit sector, philanthropists have fallen far short of solving America's most pressing problems. What the nation needs is "catalytic philanthropy"—a new approach that is already being practiced by some of the most innovative donors.

By Mark R. Kramer | Illustration by Emiliano Ponzi

Thomas Siebel does philanthropy differently from other donors. As the founder of the software company Siebel Systems Inc., he is one of a handful of philanthropists who have the resources to devote substantial time and money to charity. His approach and the results he has achieved, however, dramatically distinguish him from most of his peers.

In 2005, while spending time on his Montana ranch, Siebel became concerned about the rampant local use of methamphetamine, or "meth." Meth is a highly addictive and physically destructive drug, and it is a particularly acute problem in rural America. In 2005, Montana had the fifth worst level of meth abuse among all U.S. states. Half of its inmates were imprisoned for meth-related crimes. The direct cost to the state was estimated at nearly $300 million per year, and the cost in human lives and suffering was far greater.

Rather than writing a check to a local nonprofit, Siebel took the time to find out why people become addicted to meth. After learning that first-time users were typically teenagers who were unaware of meth's risks, Siebel created the Meth Project to change teenage perceptions about the drug. He brought together experts and hired a major San Francisco advertising agency to develop a hard-hitting campaign that would reach 80 percent of Montana teens with at least three ads every week.

The ads were world-class: With production budgets of $500,000 to $1 million each, they were directed by leading Hollywood figures such as Alejandro González Iñárritu, director of the Academy Award-nominated film *Babel*. The ad campaign has won 43 awards in national and international advertising competitions.

The ads were gut-wrenching: Tested in focus groups to capture a teenager's attention, they were far more brutal than anything the community had seen on television before. The 30-second spots begin with an ordinary teen whom kids can relate to, and end by showing the badly scarred and disfigured ravages that come from using meth. Teens are shown attacking and robbing their own families, prostituting themselves, or dying from an overdose. In one ad, a boy describes how his mother has always been there for him, while the screen shows him stealing her purse, hitting her, and kicking her away as she screams and desperately tries to grab his leg while he runs out the door.

And the ads were pervasive: Because Montana is a small media market, Siebel's $2 million annual advertising budget generated more than 45,000 television ads, 35,000 radio ads, and 1,000 billboards in the first two years. The Meth Project became the largest purchaser of advertising in the state. The results have been stunning. Between 2005 and 2007, meth use in Montana dropped 45 percent among teens and 72 percent among adults, while meth-related crimes fell 62 percent. The percentage of teenagers who were aware of meth's dangers increased from 25 percent to 93 percent, and teenagers have even begun to dissuade their friends from trying meth. Montana's ranking among U.S. states in meth abuse fell from fifth to 39th.

Siebel has continued the campaign, using teen focus groups to develop new advertising campaigns every nine to 12 months. He has convinced other funders to support the campaign and encouraged schools and community organizations to sponsor anti-meth events. Siebel has also personally lobbied Congress to combat the meth problem. Six other states have adopted the Meth Project's program.

Siebel's success in fighting meth abuse stands in stark contrast to the modest and often indiscernible results that most philanthropists have achieved, whether individually or collectively. Between 1980 and 2005, U.S. annual charitable giving in constant dollars grew by 255 percent and the number of nonprofits more than doubled to 1.3 million. Today, per capita giving in the United States is three times greater than any other country in the world. Yet, during this same 25-year time period, the United States dropped from second to 12th among the 30 countries that are members of the Organisation for Economic Co-Operation and Development (OECD) in basic measures of health, education, and economic opportunity.

To be sure, philanthropy cannot be blamed for the persistence of childhood poverty and failed schools that result from much larger political and economic forces. Without philanthropy, conditions would likely be even worse. Yet whatever benefits philanthropy may provide, it is not delivering the kind of social impact Siebel achieved. If philanthropy is to become an effective way of solving pressing social problems, donors must take a new approach.

Siebel is one of the exemplars of this new approach, but there are others. These exceptional donors—whether foundations, corporations, or individuals—do not write the largest checks, but they do act differently from other donors. They have expanded the toolkit of strategic philanthropy beyond even the most recent thinking of venture philanthropists and social entrepreneurs, creating a new approach to bringing about social change that I call "catalytic philanthropy." Before turning to a discussion of the practices that distinguish this new form of philanthropy, it is important to understand why the conventional approach so rarely produces measurable impact.

Limitations of Traditional Philanthropy

For most donors, philanthropy is about deciding which nonprofits to support and how much money to give them. These donors effectively delegate to nonprofits all responsibility for devising and implementing solutions to social problems. Despite the sincere dedication and best efforts of those who work in the nonprofit sector, there is little reason to assume that they have the ability to solve society's large-scale problems.

The overwhelming majority of the 1.3 million U.S. nonprofits are extremely small: 90 percent of their annual budgets are under $500,000 and only 1 percent have budgets greater than $10 million. Each nonprofit is capable of helping hundreds or even thousands of people in need, and many of them do so in creative and highly effective ways. Despite their often-heroic efforts, these nonprofits face severe limitations.

Each nonprofit functions alone, pursuing the strategies that it deems best, lacking the infrastructure to learn from one another's best practices, the clout to influence government, or the scale to achieve national impact. A majority of the very largest nonprofits that might have the resources to effect national change are hospitals, universities, and cultural organizations that focus primarily on their own institutional sustainability. Collaboration throughout the sector is almost impossible, as each nonprofit competes for funding by trying to persuade donors that its approach is better than that of any other organization addressing the same issue. Very few systematically track their own impact.

However generous the donors or hardworking the nonprofit staff, there is no assurance—nor even any likelihood—that supporting the underfunded, non-collaborative, and unaccountable approaches of the countless small nonprofits struggling to tackle an issue will actually lead to workable solutions for large-scale social problems. The contributions of conventional donors and the good work of effective nonprofits may temporarily improve matters at a particular place and time, but they are unlikely to create the lasting reform that society so urgently requires.

Four Practices of Catalytic Philanthropy

What is needed is a new approach to philanthropy, one that catalyzes the kind of social change exemplified by Siebel's Meth Project. Over the past decade, the consulting firm that I cofounded, FSG Social Impact Advisors, has studied many examples of this new approach to social change. We have distilled what makes catalytic philanthropists so effective into four distinct practices: They have the ambition to change the world and the courage to accept responsibility for achieving the results they seek; they engage others in a compelling campaign, empowering stakeholders and creating the conditions for collaboration and innovation; they use all of the tools that are available to create change, including unconventional ones from outside the nonprofit sector; and they create actionable knowledge to improve their own effectiveness and to influence the behavior of others.

Each of these practices stands in distinct contrast to the practices that most donors, foundations, and corporations follow today. (See "Types of Philanthropy" on page 33.) To understand why these four practices are important, each will be considered in turn.

1. Take Responsibility for Achieving Results

Two years ago, the Bill & Melinda Gates Foundation asked FSG to explore why some donors are more effective than others. We interviewed several dozen wealthy donors of different ages and

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Types of Philanthropy

	CONVENTIONAL PHILANTHROPY	VENTURE PHILANTHROPY	CATALYTIC PHILANTHROPY
What is the key question?	Which organizations should I support and how much money should I give them?	How can I help to scale up effective nonprofit organizations?	How can I catalyze a campaign that achieves measurable impact?
Who is responsible for success?	Nonprofits	Nonprofits	Funders
What gets funded?	Individual nonprofits	Capacity building at individual nonprofits	Multi-sector campaigns
What tools are used?	Nonprofit programs	Nonprofit programs	All possible tools and donor resources
How is information used?	To compare grant requests	To increase organizational effectiveness	To support the campaign and motivate change

backgrounds, all of whom had been identified by their peers as highly effective, and we found a surprisingly common theme. When these donors first began giving away money, they followed conventional philanthropic practice, responding to those who asked them for funds with little awareness of what impact they actually achieved. They gave large sums to many different organizations and were viewed as prominent philanthropists in their communities, but had not yet distinguished themselves as highly effective donors.

After some time, these donors became involved in an issue of great personal significance: A donor's child was diagnosed with a rare disease; a wilderness preserve a donor hiked in as a child was about to be sold to a developer; or a donor went on a trip to a developing country and was exposed firsthand to a level of poverty and disease that she had never imagined. The urgency of the cause and the intensity of their commitment compelled each of these donors to take an active role in solving the problem.

These newly energized donors became deeply knowledgeable about the issue and actively recruited collaborators, sometimes even creating a new nonprofit to further the cause. The donors stopped thinking about which organizations to support, and started to think about how to solve a specific problem, using every skill, connection, and resource they possessed. The donors formulated clear and practical goals that enabled them to identify the steps needed to succeed. Above all, the donors took responsibility for finding solutions to the problem instead of waiting for the nonprofit sector to approach them with a proposal. Like Siebel's campaign against meth abuse, the difference in impact was remarkable.

Consider the example of Bob Pattillo, an Atlanta real estate developer who had a small family foundation, the Rockdale Foundation. On a church mission to Cuba, he encountered impoverished families who had benefited from microfinance and wondered why so little microlending was taking place in the Middle East. (In 1999, there were only 40,000 Arab microfinance borrowers, compared to millions of borrowers in Asia and Latin America.) Instead of waiting for a nonprofit to approach him, or asking "Whom should we give money to?" Pattillo focused on creating a solution by asking "What infrastructure would need to be in place for microfinance to flourish in Arab regions?"

The answer to this question led Pattillo and the Rockdale Foundation to take a number of steps. The body of literature about microfinance had never been translated into Arabic, so they hired translators. There had never been an international conference on Arab microfinance, so they organized one. The lone coordinating organization in the region had a single staff member, little revenue, and no business plan, so they nurtured its growth and development. The major funders of global microfinance had overlooked the Middle East, so Pattillo commissioned research about the need and opportunity, then personally brought it to their attention. In short, Pattillo pieced together the disparate elements needed to catalyze the change he sought.

The results were dramatic: In seven years, with an average annual expenditure of only $400,000, the number of Arab microfinance borrowers grew from 40,000 to 3 million. More than 50 new microfinance institutions began serving the region, supported by 18 major foundations. The leading global microfinance investors contributed an influx of debt capital, and the coordinating organization flourished. The Rockdale Foundation more than met its goal of increasing microlending in Arab regions.

Our research suggests that if donors want to solve a problem, they must decide to do so themselves. This doesn't mean that they need to create their own nonprofit or that they should ignore the efforts of others. It does mean that funders have a powerful role to play that goes beyond merely supporting existing nonprofits. Private donors, foundations, and corporations have the clout, connections, and capacity to make things happen in a way that most nonprofits do not. By becoming directly involved and taking personal responsibility for their results, these donors can leverage their personal and professional relationships, initiate public-private partnerships, import projects that have proved successful elsewhere, create new business models, influence government, draw public attention to an issue, coordinate the activities of different nonprofits, and attract fellow funders from around the globe. All of these powerful means for social change are left behind when donors confine themselves to simply writing checks.

Catalytic philanthropists, however, must be as cautious as they are bold. Considerable havoc has been wrought, and billions of dollars wasted, by donors whose success in business or other fields has convinced them that they can single-handedly solve a social problem that no one else has solved before. Philanthropists cannot catalyze change by acting alone or imposing a solution, convinced that they have the answer before they begin. Instead, they must listen to and work with others, enabling stakeholders to develop their own solutions.

2. Mobilize a Campaign for Change

In "Leading Boldly," an article that Ron Heifetz, John Kania, and I wrote for the winter 2004 issue of the *Stanford Social Innovation Review*, we suggested that many of the problems foundations tackle are adaptive in nature: The people with the problem have to become engaged in solving it for themselves. Teenagers, for example, need to dissuade other teenagers from using meth. In other cases, effective solutions may already be known but cannot be externally imposed on the existing system. It is well known, for example, that better qualified teachers produce better educated students, but the systemic changes needed to act on that simple solution are mind-bogglingly complex. The obstacle isn't that no one knows any answers, but rather that the uncoordinated actions, narrow constraints, and conflicting incentives of different stakeholders and different sectors of society perpetuate the status quo.

Catalytic philanthropy cuts through these divisions by stimulating cross-sector collaborations and mobilizing stakeholders to create shared solutions. Building alliances that create the conditions for a solution to emerge and take hold is a very different pursuit from the usual grantmaking process of trying to direct funds to the one organization that offers the most appealing approach. Systemic reform requires a relentless and unending campaign that galvanizes the attention of the many stakeholders involved and unifies their efforts around the pursuit of a common goal.

Consider the example of Strive, a nonprofit founded in late 2006 by Nancy Zimpher, then president of the University of Cincinnati. Zimpher believed that her university could not succeed in its mission unless the entering students, drawn largely from the local school systems, were adequately prepared. Recognizing that educational success was the result of a long and often fragmented process that begins with preschool and ends with career placement, Zimpher approached the KnowledgeWorks Foundation and the Greater Cincinnati Foundation to help form a community-wide initiative to reform the entire continuum. More than 300 organizations and institutions in the Greater Cincinnati area now participate in Strive, including school districts, universities, private and corporate funders, civic leaders, and nonprofits with combined budgets of $7 billion.

The organizations are grouped into 15 networks, each of which focuses on a single educational component, such as preschool education or college readiness. Each network is developing a common set of goals and progress indicators to be tracked throughout the region. They employ only evidence-based solutions that have demonstrated progress on the agreed measures. The leaders of the organizations in each network meet every two weeks for two hours to discuss their progress. Participation is voluntary and does not include any additional funding. Instead, organizations learn from each other, reach agreement on performance standards, and find ways to collaborate that increase the effectiveness of all participating organizations. Many changes are simple—letting teachers know which of their students are being tutored, and aligning classroom and after-school curricula—but these small improvements throughout the region collectively improve the effectiveness of the entire educational system. No single intervention attacks the root cause of educational failure. Instead, the entire system is gradually becoming more coordinated, informed, and effective. After only two years, Strive is already reporting positive progress on a majority of its measures of educational success.

Mobilizing and coordinating stakeholders is messier and slower than funding a compelling grant request from a single organization. Systemic change depends on a sustained campaign to increase the capacity and coordination of an entire field, together with greater public awareness and, often, stronger government policies. Catalytic philanthropists have the wherewithal to heighten awareness, raise expectations, and coordinate the many disparate efforts of other funders, nonprofits, corporations, and governments.

3. Use All Available Tools

The prominence of the U.S. nonprofit sector and the tax deductibility of donations have lulled people into thinking that IRS-sanctioned philanthropy is the only way to solve social problems. Donors have the freedom, however, to complement traditional grantmaking with a wide array of other tools from outside the nonprofit sector, including many that can influence social, economic, and political forces in ways that traditional charitable giving cannot.

Siebel employed an unconventional tool by hiring world-class advertising talent and purchasing prime-time advertising for his anti-meth campaign, rather than accepting the less effective tools of donated public service announcements. Other catalytic philanthropists have used a variety of unconventional tools for social change, including corporate resources, investment capital, advocacy, litigation, and even lobbying, as demonstrated in the following examples.

Corporate Resources. General Electric Co. (GE) has helped low-performing high schools located near major GE facilities, committing $150 million over five years to five urban school districts to improve math and science education. In addition to cash contributions, GE and its employees have provided intensive tutoring, mentoring, summer employment opportunities, scholarships, and management advice to school administrators, and have donated technology. Within four years, 100,000 students in these school systems improved their standardized math test scores by an average of 30 percent.

Investment Capital. The F.B. Heron Foundation has invested more than 25 percent of its endowment in investments that further the foundation's mission. One of these investments is a subordinated loan to strengthen the balance sheet of the Minneapolis-based Community Reinvestment Fund (CRF). CRF has purchased more than 2,100 loans worth almost $1 billion from community development corporations and other community development lenders whose portfolios are not large enough to attract institutional investors directly. Since its inception, CRF has provided liquidity for loans that have generated or retained more than 35,000 jobs, financed almost 600 women or minority-owned businesses, and built more than 16,000 housing units.

Advocacy and Litigation. The William and Flora Hewlett Foundation has supported grantees that use advocacy and litigation to profoundly influence educational policy in California. The 2004 settlement of a lawsuit against the state of California brought by the ACLU and Public Advocates, funded in part by the Hewlett Foundation, led to $1 billion for school repairs, instructional materials, and extra support to low-performing schools. A separate lawsuit in 2005 brought by Public Advocates and Californians for Justice, also funded in part by the Hewlett Foundation, required that the state revoke the credentials of more than 4,000 underprepared teachers and provide them with additional training before they could be considered "highly qualified" under the No Child Left Behind Act. Other Hewlett grantees worked to raise public awareness and to educate policymakers through bipartisan legislative seminars on options for education reform, and tours that brought legislators and their staff into the schools to see conditions firsthand. These efforts helped generate a $1 billion bond set-aside for facilities improvements in overcrowded schools, created new longitudinal data systems to track student and teacher performance, and required the public disclosure of teacher salaries that unmasked major inequities within school districts, the first such transparency requirement in the nation.

Lobbying. Several years ago, the Pew Charitable Trusts converted from a private foundation to a public charity, enabling the foundation to engage in lobbying. The Pew Campaign for Fuel Efficiency, for example, was instrumental in getting Congress to pass a bill in December 2007 that raised average fuel economy standards for U.S. automobiles for the first time in 32 years. Pew coordinated the work of a diverse coalition of interest groups, gathered independent research findings, created high-quality polling data, and marshaled testimony from Fortune 100 CEOs and military leaders. In the three weeks leading up to the Senate vote, the campaign placed 85 editorials and paid advertisements in critical congressional districts. By 2020, when the full impact of this legislation is felt, it is projected to be the equivalent of taking 28 million cars off the road, saving $23 billion in consumer fuel costs and 190 million metric tons of greenhouse gas emissions each year.

4. Create Actionable Knowledge

Most donors rely on their grant applicants and recipients to provide them with information about the social problems the nonprofit is tackling, focusing their inquiries narrowly on the program to be funded without researching the issue more broadly. Catalytic philanthropists, by contrast, gather knowledge about the problem they are tackling and use this knowledge to inform their own actions and motivate the actions of others. Making knowledge actionable requires more than just gathering and reporting data. The information must also carry emotional appeal to capture people's attention and practical recommendations that can inspire them to action.

GreatSchools.net, for example, is a Web-based reporting tool that makes available public school performance data (including rankings by parents) on a consistent basis throughout the country. Funded by the Gates Foundation, the Walton Family Foundation, and the Robertson Foundation, the site receives 35 million unique visitors each year, an estimated one-third of U.S. families. Similar information, compiled by Standard & Poor's and funded by the Gates Foundation, is available at the Web sites SchoolMatters.com and SchoolDataDirect.org. Making reliable school performance data publicly available will influence the behavior of many stakeholders and help create the conditions for solutions to arise.

Actionable knowledge can also have an impact on government spending priorities. In 2004, Pew commisioned a study showing that extending preschool to the 4 million children under age 5 living below the poverty line would produce a net benefit to the economy of more than $511 billion—a $16 return from higher earnings and fewer welfare payments for every dollar spent. This study enabled advocates to make a compelling case for increased state spending. Between 2005 and 2008 total state spending in the United States on prekindergarten programs grew by 66 percent from $2.9 billion to $4.8 billion; seven states have pledged universal preschool for all 4-year-olds, and three other states have promised preschool for all children in low-income families.

The Annie E. Casey Foundation used data in a different way. The foundation hired local residents to gather and report data about their own communities. This increased civic engagement and empowered community members to hold local nonprofit service providers and government agencies accountable for their performance. In Des Moines, Iowa, for example, the residents used the data they had collected to recover $2.5 million from four predatory lenders and to lobby successfully for passage of a statewide lending disclosure law.

Actionable knowledge is not limited to compiling and analyzing data. Jeff Skoll, first president of eBay Inc. and founder of the Skoll Foundation, created a for-profit film production company, Participant Media, in 2004 to produce major movies that could inform and engage the public on social issues. With projects such as *Syriana*, *An Inconvenient Truth*, and *Good Night, and Good Luck*—Participant has been a commercial and artistic success, producing enviable box office revenues and multiple Academy Award nominations. Participant partners with nonprofits to create social action campaigns for each film that it releases, such as benefit screenings and educational curricula for schools. The social action campaign for *An Inconvenient Truth*, one of the highest grossing documentaries of all time, led directly to more than 106,000 tons of CO_2 offsets, nine countries incorporating the film into their curriculum for high school students, and four bills on climate change introduced in Congress.

Moving Forward

Social change is a messy process in which the willpower of a determined and influential person can often tip the balance. Donors who are serious about solving social problems must take a catalytic role, mounting a campaign and knitting together the pieces of a solution in ways that the fragmented nonprofit sector cannot do for itself.

This is not to suggest that catalytic philanthropy is appropriate for all donors, or that other types of philanthropic engagement are ineffective. Most individual donors have neither the time nor the resources to do more than contribute to deserving organizations. Conventional philanthropy serves an essential function in supporting major nonprofit institutions, enriching many lives, and providing assistance to countless individuals in need. Venture philanthropy and social entrepreneurship also play important roles by helping effective organizations and talented leaders expand the scale of their impact. The variety in types of philanthropy is one of the reasons for the nonprofit sector's vitality, and society would be dramatically worse off were it not for the billions of dollars in annual charitable contributions from conventional donors.

We should not pretend, however, that conventional contributions will change the status quo. Instead, the much smaller set of donors who have the desire and opportunity to achieve change—whether professionals at foundations and corporations or individual philanthropists with the time and resources to become personally involved—must step forward to become catalytic philanthropists. If they do, they will begin to see measurable impact from their efforts and the potential to change social conditions meaningfully. Philanthropy is indeed a powerful tool for social progress, but only when donors make it so. ■

Recreating *Fine Arts* Institutions

By Diane E. Ragsdale | Illustration by David Herbick

The fine arts in America are on a perilous path. Attendance at opera, theater, jazz, symphony, and ballet performances has dropped precipitously in recent decades. Just as worrisome, the median age of people attending these events has increased dramatically. If the fine arts are to survive as a living, creative, and significant force in American life, arts institutions need to radically recreate themselves.

BY SOME MEASURES, the fine arts have been enjoying a boom. The number of U.S. nonprofit arts organizations has grown exponentially, from a few thousand in the 1960s to more than 50,000 today. Not only are there more organizations, many individual institutions have grown significantly in size. Bolstered by ever-larger donations and endowments, leading symphonies, museums, and theaters have built larger and more opulent spaces and vastly increased their programming. To support these new endeavors, institutions have bulked up their infrastructures. Many organizations that had 10 to 20 employees in the 1970s now boast 100 to 200 employees, with much of the growth coming in development and marketing.

Unfortunately, as a recent survey of arts participation in the United States indicates, demand did not keep pace with the growth of the sector. The National Endowment for the Arts (NEA) reports that between 1982 and 2008, adult attendance declined in almost every art form: ballet attendance was down 31 percent, opera was down 30 percent, classical music was down 29 percent, nonmusical theater was down 21 percent, and jazz was down 19 percent. And the rate of decline has accelerated in most of these disciplines in recent years.[1] (See "Percentage of U.S. Adults Attending Fine Arts Events" on page 39.)

Not only is the number of people attending fine arts events falling, the median age of those who are attending is getting significantly older. According to the same NEA report, between

1982 and 2008 the median audience age rose from 37 to 46 for ballet, from 43 to 48 for opera, from 40 to 49 for classical music, from 39 to 47 for nonmusical theater, from 28 to 45 for jazz, and from 36 to 43 for art museums. The numbers are even bleaker for season ticket holders. The Metropolitan Opera, for example, reported that the average age of its subscribers rose from 60 in 2000 to 65 in 2005.

Some arts leaders have convinced themselves that fine arts audiences have always been gray, but that isn't true. As recently as 1964 the median age of performing arts audience members was 38. In the seminal book *Performing Arts: The Economic Dilemma*, published in 1966, economists William J. Baumol and William G. Bowen write: "Older people (those over 60) are the scarcest members of the audience relative to their numbers in the urban population in the United States. In a word, audiences are young." [2]

Other fine arts leaders claim that attendance has fallen because people don't have time to attend a lengthy ballet or opera. On the contrary, studies indicate that many Americans actually have more leisure time now; they are simply choosing to spend it differently. Between 1965 and 2003, leisure time increased by 7.9 hours per week on average for men and by six hours for women. Unfortunately, most people aren't using those additional hours to patronize the arts. Time diary studies show people on average spend only 10.2 minutes per week participating in fine arts activities, or just under nine hours per year.[3]

Why then, are fine arts audiences getting smaller and older? Dana Gioia, former NEA chairman, paints a sobering but accurate picture. "The primary issues facing the American arts at present are not financial. They are cultural and social. We have a society in which the arts have become marginal. We are not producing another generation of people who attend theater, opera, symphony, dance, jazz, and other art forms." [4]

Cultural Chasm

Not unlike newspapers, automotive companies, and record labels, many fine arts organizations have failed to adjust to the radical social, cultural, and technological changes that have taken place in the United States during the last few decades. In fact, many arts organizations did just the opposite, catering to an increasingly aging and conservative group of mostly white subscribers and donors.

As a result, many fine arts organizations have lost touch with the new American zeitgeist. The leaders of these arts organizations often have outdated perceptions about who lives in their communities, what those people value, and what role the arts and their organizations do—or do not—play in their lives. Rather than acknowledging that they are out of touch, many arts leaders have engaged in what Edward Cornell calls "bending the map" or "trying to make reality conform to [their] expectations, rather than seeing what's there." [5]

The reality is that America has undergone vast changes in recent decades. Cities and towns have become more ethnically diverse, but the leadership, boards, and staffs of most arts organizations remain predominantly white. The suburbs have boomed, but most art still happens in the city, where performances end around 11 p.m., making the hour-long commute home exhausting, no matter your enthusiasm for art. Ticket prices have increased astronomically, while the income gap between the wealthy and poor has widened. And why pay between $85 and $185 to attend live theater when talented writers, directors, and actors are now producing bold and ambitious television programs like *The Wire*, *In Treatment*, and *Mad Men*?

Young adults' taste for the fine arts has waned, in part, because arts and music classes have been all but eliminated at most public schools. Other Americans are turned off, not by the art form itself, but because the arts are seen as elitist and exclusive. And then there's the havoc that technology has wrought. Americans live in an increasingly free, time-shifting, do-it-yourself culture. Fully half of all teens have created a blog or Web page, posted original artwork, photographs, stories, or videos online, or remixed online content into their own creations.[6] People listen to an entire album online before purchasing it and can watch many of their favorite movies and television programs at their leisure on their computer or iPod touch.

For a growing number of Americans, particularly young ones, showing up at a prescribed time, paying a hefty admission fee, and spending an entire evening passively watching a performance in a dark and sacred venue, where even the crinkling of a cough drop wrapper is enough to elicit glares from the patron next to you, feels more akin to penance than an enjoyable way to spend an evening.

Recreating the Institution

No arts organization is guaranteed perpetual relevance simply because of the size of its endowment, the permanence of its buildings, its preeminence in a city or region, or its historic accomplishments. To say that there is an intrinsic value in art is not to say that there is an intrinsic value in arts institutions. Too many arts organizations behave as if their mission is to sustain and preserve the institution rather than to create or showcase art that matters to people. When audiences decline, too many arts leaders ask, "What's wrong with these people?" What arts leaders need to ask is, "Are we willing to make the necessary changes in our mission and practices to attain, maintain, or regain our relevance?"

That's what Peter Gelb did when he became general manager of New York's Metropolitan Opera in 2006. He declared that if opera didn't become more accessible, it was heading for extinction.[7] Among the many things he has done to retool the Met is to hire contemporary theater directors to enliven the productions, commit to producing more new works and fare for families, develop a discount ticket program, stream performances in Times Square and Lincoln Center Plaza, and launch high-definition simulcasts in movie theaters around the world.

Arts leaders may be tempted to think that the solution to dwindling audiences lies in better marketing, but if arts organizations are going to survive, they have to put more than the season brochure on the autopsy table. Organizations need to rethink who they are, why they exist, what value they create, which people they need to reach and how they will reach them, and what the meaningful measures of success will be. Arts organizations need to shift away from conceiving

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of themselves as powerful gatekeepers to humbly embracing their roles as enthusiastic brokers, helping their communities to engage with art and artists in meaningful, joyful, and diverse ways.

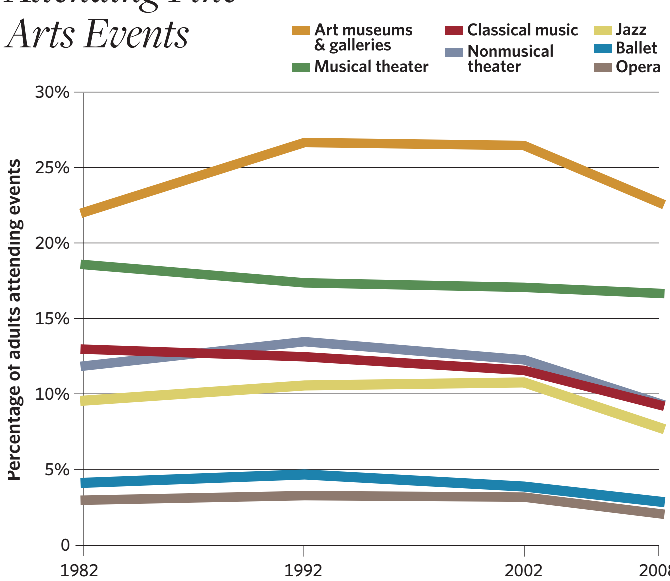
The good news is that there are a number of fine arts organizations that are succeeding by doing things differently. I have distilled the best of their work into seven practices: Focus on Impact, Create Social Networks, Let the Art Dictate the Space, Set the Art Free, Cultivate a Young and Diverse Audience, Let People in on the Action, and Become an Arts Concierge.

Focus on Impact

Arts organizations and their funders have spent the better part of the last two decades focused on metrics that gauge the organization's size, such as the number of performances and programs offered, the total contributions raised, box office revenues, or the number of tickets sold. Instead, arts organizations need to begin focusing on metrics that gauge the organization's impact on its patrons, such as frequency of attendance, the curiosity to learn about the art form and the ideas encountered, the depth of emotional response, or the quality of social connections made.

One person who is focused on creating art that matters is choreographer Elizabeth Streb. In 2003, she opened a performance space in the Williamsburg neighborhood of Brooklyn, N.Y., called SLAM. Instead of creating a church-like space that patrons visited once a week for a sacred experience, Streb opened the doors and let people come in anytime to watch rehearsal or use the restroom. She added popcorn and cotton candy machines and let people walk around and eat food during the performances. Streb noticed that her patrons wanted to join in, so she installed a trapeze and began teaching people how to fly, developing classes for preschoolers to adults. Performances largely feature the professional company, but Streb also features her students in the shows.

Percentage of U.S. Adults Attending Fine Arts Events



SOURCE: National Endowment for the Arts, *Arts Participation 2008*, June 15, 2009

Streb doesn't need to advertise her performances because she has created a robust social network that drives ticket sales. There is a palpable energy and familiarity in the room—people know each other and interact in the space as they would at a backyard barbecue. People come back to the performances time after time and the "initiated" (particularly the kids) delight in showing newcomers the ropes, both literally and figuratively. The experience is participatory, not transactional. Streb's success is measured not when the ticket gets sold at the box office, but 30 minutes after the show when everyone is still lingering, buzzing, and talking with one another and the artists. Streb is cultivating true fans—a diverse group of people who are deeply engaged, enthusiastic, and loyal—and in the process is creating a community cultural center that matters to Brooklyn.

Create Social Networks

Watching longtime subscribers and major donors at the opening night of a performance or an exhibit, it's clear that they are well acquainted and that seeing one another is as important as seeing the art on the stage or the walls. Newcomers to the arts, however, often feel like outsiders. Very few arts organizations do much, if anything, to help foster social networks among their patrons, and yet this could be even more important than the quality of the art in determining whether people show up to a performance or return for another.

The 2006 New Zealand Arts Survey found that the No. 1 reason (given by 29 percent of respondents) why people said they were attending more arts events was that they had someone to go with.[8] The survey also noted that when participants in the "low attendance segment" were asked why they are attending more often now than they were three years ago, this segment (more than the others) identified the need to be encouraged by their social network to attend.

One arts organization that has successfully built and fostered social networks is the Foundry Theater in New York City. In 2008, the Foundry produced *Open House*, a two-person play that examined the long-term impacts of the escalating costs of real estate on New Yorkers and the growing anxiety over housing costs and neighborhood change. The play took place in two dozen apartments across all five New York boroughs, which the Foundry located through an "open call." When patrons bought their tickets, they signed up to see the performance at one of 24 residences around the city.

I signed up to see *Open House* at an apartment on the Upper West Side of Manhattan. Before the performance started, I mingled with the actors, production staff, and the other 30 or so patrons and heard the history of the apartment from the owner and host of that night's performance. At the end of the performance, everyone was invited to stay and eat, drink, and talk. When the entire project was over, the Foundry invited all of the people who had opened up their homes—representing a wide array of New Yorkers—to a dim sum party. Not only did these generous city dwellers break bread together, but friendships were formed.

Let the Art Dictate the Space

For nearly three decades, the vast majority of capital spending in the arts has been used to construct ever more grand and expensive museums, concert halls, and theaters. Perhaps there should be a moratorium on this type of spending, with money instead redirected to convert existing spaces so that they are better suited to the ways contemporary artists are presenting their work and that encourage a more dynamic interaction between artists and audiences.

Diane Paulus, the new artistic director of the American Repertory Theater in Cambridge, Mass., has developed Experience A.R.T. She plans to renovate the organization's black box space to become the first theater in the country that has a club venue as its second stage. At Club Zero Arrow cell phones can be turned *on* and audience members will be allowed to take photos and make videos and recordings, and post this content and their comments on social networking sites, all while experiencing the live theatrical event.

Another innovative performance space is New York's 3LD Art & Technology Center, a space designed to allow all types of artists to work together and perform using a variety of new media technologies. In the spring of 2008, the center hosted a series of performances of *Fire Island*, a piece about relationships on the bohemian barrier island off Long Island. The production incorporated panoramic film footage on enormous concave and convex screens that enveloped the space and that was deftly edited against a live performance, featuring actors who performed their scenes in and around audience members who drank wine and sat on blankets and beach chairs throughout the open space.

Sometimes, the best approach is not to create a permanent performance space at all. The National Theatre of Scotland made the bold choice when it was launched in 2006 not to build a facility, but instead to bring the theater to people all across Scotland and beyond. Since then, the theater company has performed for more than 406,000 people, on three continents, in 74 productions, done in 101 different locations.

Set the Art Free

To reach a broader audience, fine arts organizations need to create free and low-cost ways for people to sample and share art with others in the same way they sample and share music, videos, and photographs on the Web. It is important for fine arts organizations to make their performances easily available online, but it is just as important for the patrons of that organization to be the ones who promote the performances. If I encourage my friends to buy a song or a video, it means a lot more to them than if an organization does so.

Indie rock bands have long used albums and CDs as loss leaders to generate attendance at their live concerts, where the band makes most of its money. Now, more and more individual artists are giving their music away online as a way to generate awareness, build a fan base, and develop an audience for their live performances. Some fine arts organizations have begun to use the Internet to showcase performances. On the Boards, a contemporary performing arts organization in Seattle where I was managing director several years ago, recently received $750,000 from the Wallace Foundation to launch OtBTV—a pilot program offering full-length, high-definition experimental performances online.

Most arts organizations, however, have not yet embraced the online culture. The American Composers Orchestra (ACO) performs mostly new and experimental classical music. On Oct. 13, 2006, I attended an ACO concert that included a new composition and video. I recently went online to find a recording of the piece, but I was not successful. If the ACO had recorded and posted the performance online, allowing people to sample a three-minute clip for free or download the entire piece for $2, I would have e-mailed at least a dozen people the day after the concert and said, "Go to the Web site and check out this fantastic piece." If even only 10 percent of the audience had spread the word, imagine how many more people from around the world would have seen the piece than the several hundred who were in the New York concert hall that night.

Cultivate a Young and Diverse Audience

Many fine arts organizations focus too much of their attention on their existing subscribers and audience members, most of whom are older and white. If these institutions are going to survive in the long run they must begin cultivating a much younger and more ethnically diverse audience.

When Irene Lewis arrived at Baltimore's Centerstage Theater in the early 1990s as the new artistic director, the theater was primarily producing works by white playwrights, performed by white actors, for white audiences. The population of Baltimore, however, is two-thirds African-American. Lewis determined that Centerstage was not serving the community and made a commitment to produce two or three plays a season that were written by African-American playwrights or were about the African-American experience. Despite angry subscribers and financial consequences, the theater stayed the course. Today, 15 years later, the African-American plays generate the highest attendance and revenues.

Under the baton of Esa-Pekka Salonen, the Los Angeles Philharmonic gradually updated its programming, focusing more on contemporary classical music. Challenging the sentiment and bucking the experience of many U.S. orchestras, the Los Angeles Philharmonic demonstrated that new music *can* sell tickets. According to Salonen: "If you want to reach a young person who has not learned classical music at home or in the schools, the best repertory is 20th-century repertory rather than Mozart or Haydn or Beethoven. Just because of the familiarity of the sound world, something like '*Le Sacre*' gives you a sense of recognition, even if your only point of reference is rock music. It doesn't belong to the establishment; there is no political or class difference." [9]

Let People in on the Action

More often than not, arts organizations seem to underscore the distinctions between the professional arts and the amateur arts, and as a result often leave people feeling mystified and unworthy, rather than curious and eager to join in. Some fine arts organizations, however, are beginning to demystify the artistic process.

Four years ago, Chicago's Steppenwolf Theatre launched First Look 101, in which they invite 101 patrons to join them at important steps of developing a new play. Most arts organizations offer behind-the-scenes opportunities only for major donors. First Look 101, however, is affordable ($45 for students and $75 for others) and open to anyone. The three-month program gives people the chance to attend an unrehearsed table reading, the first day of rehearsal (including designer presentations), a rehearsal involving blocking and scene work, a technical rehearsal (when elements such as lights and sound are incorporated), and then a final performance.

Some fine arts organizations are using the Internet to involve patrons. In 2006, New York's Museum of Modern Art invited anyone to create a video to accompany a short audio piece by avant-garde multimedia group the Residents. The museum then selected 11 videos and posted them on YouTube, where the public could comment and vote for their favorite video. From the public's feedback, MOMA ultimately determined which videos to screen at the museum.

Other professional theater companies are inviting amateurs to share the stage. New Zealand's Auckland Theatre Company created Open Call to cast *Taming of the Shrew.* Ten people were selected through a nationwide audition open to anyone aged 18 to 25. One reviewer called it "the most vibrant, engaging and truly alive 90-odd minutes of theater I have ever witnessed from Auckland Theatre Company." And some organizations are putting the power of programming in the hands of their patrons. In the People's Opera contest, Chicago Opera Theater lets its patrons (for $1 per vote) select among three options and program one of the slots in its season. The Indianapolis Symphony Orchestra and the New York Philharmonic have begun to let patrons use their cell phones to vote for which encore they want to hear.

Become an Arts Concierge

One of the biggest challenges U.S. consumers face today is that they have too many choices. People can pick from more than 100,000 DVDs on Netflix, more than 2.5 million books on Amazon, and more than 10 million songs on iTunes. To sort through the clutter, companies are developing ways to help people make more informed choices. When someone buys a book on Amazon, for example, the Web site often encourages the purchase of another book by the same author or about a similar subject.

Many communities have developed calendars of arts and culture events, but very few communities or organizations have gone the next step and helped people figure out which event they might most enjoy attending. In fact, ever since subscriptions became the preferred method of selling tickets, organizations have tended to tell the public: "We've got eight shows this season and they are all fantastic!" The shows may all be pretty good, but it is doubtful that everyone will be equally interested in all of them. By not helping people make informed choices and find the shows that they are most likely to enjoy, organizations increase the likelihood that people either will decide not to attend any performance, or if they do attend, will not have a positive experience and will become disengaged.

Arts organizations need to stop trying to sell everyone the same package of performances, and instead become arts concierges: responsive, reliable, and trusted friends who help customers make decisions about what performance to see. Arts organizations could even cross-promote each other's products and services. Like Amazon, a theater Web site could nudge patrons to try other performances they might enjoy based on their current selections—for instance, "Diane, since you bought two tickets to a performance of Edward Albee's *The American Dream,* you might also be interested in buying tickets to Christopher Durang's *Why Torture Is Wrong and People Who Love Them* at our partner theater. Purchase tickets to both shows now (you can pick your dates for the Christopher Durang play at a later time) and you will receive a 15 percent discount on your entire order."

There are organizations across the United States that are experimenting with becoming an arts concierge. One example is an effort funded by the Mellon Foundation called Project Audience, which is aimed at helping develop the next generation of technology and practices that would support collaborative strategies among arts organizations to build arts participation within their communities.

Be Creative

There is no simple formula that fine arts organizations can follow to engage people. Podcasts plus Facebook plus $10 tickets does not equal success. Instead, leaders of arts organizations need to be brutally honest about the state of affairs and boldly adapt to them. Phelim McDermott, cofounder and co-artistic director of the London theater company Improbable, put it well when he said: "Improvisation as we practice it is less about being quick-witted and wacky and more about embracing paradoxical skills. These include the ability to be courageous and decisive while at the same time open and vulnerable to whatever happens around you. We work on developing the ability to be humble, not armored, in the face of unexpected events." [10]

What do successful arts organizations, such as those highlighted in this article, have in common? First, their artistic leaders are involved in and deeply committed to their transformations. Second, they do not behave as if achieving artistic virtuosity and being relevant to the community are competing or mutually exclusive goals. They are pursuing excellence and equity. Third, they had the courage, capacity, and willingness to adapt.

A 1965 Rockefeller Brothers Fund report, *The Performing Arts: Problems and Prospects*, states: "The arts are not for the privileged few, but for the many. Their place is not on the periphery of daily life, but at its center. They should function not merely as another form of entertainment but rather should contribute significantly to our well-being and happiness." America didn't fulfill John D. Rockefeller III's vision in the 20th century. We have the opportunity to do so in the 21st century, but only if we embrace and become engaged in the social, cultural, and technological changes that are occurring. ■

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Public/Private Alliances Transform Aid

By Andrew S. Natsios/Illustration by Michelle Thompson

The dual goals of scalability and sustainability have eluded many development projects. In recent years, however, the United States Agency for International Development (USAID) has reached out to corporations, nonprofits, and even private citizens to build alliances that are making large-scale, long-term change. In this article, the former head of USAID describes the public-private partnership model that his agency forged, the successes that the model has won, and the struggles that it continues to face.

In 1994, 800,000 Rwandans were murdered in the last genocide of the 20th century. When Paul Kagame became president of Rwanda, the nation's economy was still in shambles, with few resources other than its people and its coffee crop. But Rwanda's coffee beans were of such poor quality and unappealing taste that they were sold at the lowest possible prices. Traders made most of the modest profits, leaving growers impoverished.

To make Rwanda's coffee crop more profitable, the United States Agency for International Development (USAID) and the Rwandan government organized an unusual alliance between coffee farmers and several international coffee companies, including Starbucks Corp. and Green Mountain Coffee Roasters Inc. The alliance trained the farmers to process specialty coffee beans that would fetch premium prices. USAID played a central role in linking the coffee farmers to U.S. coffee retailers, as well as in training farmers in how to grow and process the coffee to meet high specialty coffee standards. USAID also helped coffee farmers secure bank loans to buy or upgrade equipment.

By 2006, exports of Rwandan specialty coffee had grown to $8 million, and coffee farmers' per capita income had more than quadrupled, from $75 per year in 2001 to $400 per year in 2006. Starbucks and Green Mountain Coffee ranked Rwandan specialty coffee as the best of the best.

Like USAID in Rwanda, other donor government aid agencies are increasingly working with corporations and nongovernmental organizations (NGOs) to encourage economic development in poor countries. At least 10 bilateral aid agencies (that is, government agencies in a single country—such as USAID and the Department for

International Development, the British government's aid agency—that give aid to other countries) and multilateral aid agencies (that is, aid agencies—such as the World Bank and the United Nations Development Programme—that direct funds from several different governments and organizations to different countries) have established institutions to make these cross-sector links.

USAID embarked on its own large-scale experiment in public-private partnerships with corporations, foundations, NGOs, churches, universities, and ethnic diasporas in May 2001. These private entities contribute their own financial resources, expertise, logistical capacity, and technologies. They are not USAID contractors. Instead, they are partners in a new form of alliance that may help solve two classic problems of foreign aid: How do we design development projects that thrive even after government funding ends? And how can we expand small yet successful projects to scale so that they can help millions of people?

Eight years later, with 680 alliances valued at $9 billion in combined resources, USAID has learned many valuable lessons about how government aid agencies can get the most out of their alliances with private sector partners. We found that we must not only remove barriers to cross-sector cooperation—including low risk tolerance, excessive bureaucracy, and narrow notions of possible partners—but we must also create the right incentives for building alliances. As other government aid agencies increasingly rely on nontraditional partners to stimulate economies, alleviate poverty, preserve the environment, and protect human rights, they may learn much from USAID's experiences.

Governments Engage New Actors

Over the past 25 years, three seismic shifts have encouraged government aid agencies to join forces with corporations and NGOs. The first of these shifts is the massive increase in private U.S. dollars flowing to developing countries. In 1970, the U.S. government sent 70 percent of the U.S. money traveling to the developing world, while private sources sent the remaining 30 percent. By 2007, those trends had reversed, according to the Hudson Institute's 2007 Index of Global Philanthropy: The U.S. government provided only 9 percent ($21.8 billion) of the $235.2 billion flowing from the United States to developing countries; private sources sent the remaining 91 percent (that is, $213.4 billion). A closer inspection of the data shows that foundations, corporations, nonprofits, and other private philanthropic sources sent $37 billion to developing countries; ethnic diasporas sent $79 billion in remittances (mostly to Latin America); and corporations and individuals sent $97.4 billion in private capital flows, mostly to Asia.

This change in funding from public to private sources does not reflect a reduction in U.S. foreign aid, but instead an increase in private giving and transactions. These dramatic increases in private resource flows present aid agencies with new opportunities for increasing the scale and the sustainability of their projects. And public-private alliances are one mechanism for integrating the efforts of governments, corporations, NGOs, and even private citizens.

The second shift that is pushing governments to reach out to nontraditional partners is the globalization of the world economy. In the 1980s, barriers to trade and investment began to crumble, resulting in a massive infusion of private equity capital into developing countries, particularly Asia. International businesses arrived in countries that had previously experienced limited economic growth under planned socialist economies or mercantilist systems, whose business elites used state intervention to keep out competitors. As the corrupted, crony form of capitalism that dominated developing countries began to erode, market forces helped drive down poverty at an unprecedented rate. By the 1990s, these processes had dramatically expanded the size, influence, and number of international corporations operating in developing countries. They also made private capital, rather than foreign aid, the main antipoverty tool of the late 20th century. Given this economic globalization, government aid agencies that seek to alleviate poverty may more successfully accomplish their missions by integrating some of their programs with private sector efforts.

A final force that is moving government aid agencies to work with private partners is the realization that, in many cases, governments in the developing world are either too weak or too corrupt to spend aid well. During the Cold War, the U.S. government provided foreign aid to anti-Communist regimes, such as that of Mobutu Sese Seko of Zaire. But many of these regimes turned out to be corrupt, predatory, and tyrannical, and so the foreign aid produced neither public services nor reform. In many cases, the aid simply disappeared. Before 1982, USAID directed less than 15 percent of its annual spending through local and international NGOs and universities. In that year, though, the agency's leadership decided to stop making low-interest loans to the governments of sovereign states. And by the mid-1990s, the agency stopped relying on cash transfers to government treasuries as a principal tool to help developing countries.

These two changes freed USAID to direct more funding through grants and contracts to NGOs, universities, and businesses. This new model has increased the transparency, accountability, and performance of aid programs, audits show. With the new business system created in the 1990s, for instance, all U.S. foreign aid to Zaire went through NGOs such as CARE and Catholic Relief Services. These organizations in turn reduced child and maternal mortality rates, improved nutrition, and increased agricultural production. By 2007, USAID was directing more than 50 percent of its spending through NGOs, civil society organizations, and universities (the remainder went through international organizations and private contractors). And now USAID has 400 alliances with corporate partners alone.

To accommodate these shifts, USAID and other government aid agencies not only have had to form alliances with nontraditional partners, but also have had to create new organizational structures to manage these alliances. Before the 1990s, aid agencies typically created alliances with nontraditional partners as stand-alone projects to meet specific objectives. More recently, however, these aid agencies began creating standing organizational structures to undertake lengthier partnerships. In 2001, for example, USAID created the Global Development Alliance (GDA). Now a division of USAID's Office of Development Partners, the GDA still retains its primary

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responsibilities, which include serving as the lead partnership structure between the U.S. government's international development program and the private sector. The GDA's successes have led the U.S. government to establish similar alliance-building offices in the State Department and in several domestic departments. President Bush's signature foreign aid initiative, the Millennium Challenge Corporation, also works with private sector partners to promote economic growth and country ownership of programs.

Other bilateral and multilateral aid agencies have likewise created freestanding entities to manage their alliances with private partners. The Canadian International Development Agency hosts the oldest partnership program, the Canadian Partnership Branch (CPB). Founded in 1999, this program produced 1,380 projects valued at nearly $2.1 billion (in 2005 U.S. dollars) between 1999 and 2006. The German aid ministry, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), formed 822 alliances through its Public-Private Program between 1999 and 2005. And from 2000 to 2007 the World Bank invested $1.04 billion in private alliances.[1] Although these agencies invest an average of only 2 percent of their funds into alliances, that amount is growing, showing that these agencies are trying new approaches to poverty reduction, economic growth, protection of the environment, and the enforcement of human and labor rights standards.

Raise Risk Tolerance

Although aid agencies are reaching out to corporations and nonprofits at an unprecedented rate, the path to alliances has not always been smooth. An early impediment to alliance building at USAID, for example, was the U.S. government's increasingly risk-averse culture. Over the past two decades, a complex regulatory apparatus has evolved across all U.S. federal agencies and departments. With the goals of limiting abuse and increasing accountability, this apparatus rewards caution and due process, but unintentionally discourages innovation and risk taking.

When USAID introduced the idea for the GDA, the U.S. Office of Management and Budget (OMB) opposed anything more than a token appropriation for it. Both Republican and Democratic staffers on the congressional authorization and appropriations committees likewise resisted the idea, arguing that they could not control the spending of the private sector funding. And after the GDA's first audit, the USAID inspector general argued that GDA projects did not properly fit into the agency's country strategies.

To address the regulators' objections, USAID adopted several strategies. First, the agency enlisted the support of legislators who represented areas where GDA private sector partners were headquartered. For example, when USAID and Waterbury, Vt.-based Green Mountain Coffee were developing their specialty coffee partnership, a powerful Vermont senator was the ranking Democrat on the committee that controlled USAID's budget. The agency's initiative also won the endorsement of Secretary of State Colin Powell in the summer of 2001. Later, both Powell and I sent messages to embassies and USAID field missions worldwide to encourage cross-sector alliances. As the size and magnitude of the GDA grew, the White House staff took notice and added their support.

The Many Alliances of USAID

Here are a few examples of the aid agency's partnerships with businesses and NGOs:

Name	Start	Partners	Location	Mission	Results
Sustainable Tree Crops Program	2003	■ USAID ■ World Cocoa Foundation ■ Global cocoa industry ■ Bill & Melinda Gates Foundation	■ West Africa	■ Help farmers grow better cocoa ■ Link farmers with markets ■ Teach farmers business skills ■ Organize cooperatives ■ Protect surrounding environment	■ Taught 33,000 farmers in five countries ■ Benefitted 69,000 farmers through knowledge diffusion ■ Increased participants' yields ■ Decreased pesticide use ■ Raised payments to participants
Continuous Improvement in the Central American Workplace	2004	■ USAID ■ Gap ■ Wal-Mart ■ Limited Brands ■ Timberland ■ Coldwater Creek ■ Billabong ■ DAI	■ Guatemala ■ El Salvador ■ Honduras ■ Nicaragua ■ Dominican Republic	■ Improve compliance with international labor standards ■ Increase competitiveness of the Central American textile sector ■ Raise productivity by improving quality of life	■ Trained 809 workers in 47 factories on labor rights and responsibilities ■ Trained 614 labor ministry inspectors, some 50 percent of the region's inspectors ■ Implemented antidiscrimination manual ■ Reduced overtime in several locales
Water and Development Alliance	2005	■ USAID ■ Coca-Cola ■ Global Environment & Technology Foundation ■ Local partners	■ 21 countries in Africa, Asia, Latin America, and the Middle East	■ Increase access to clean water ■ Manage watersheds sustainably ■ Use water more efficiently ■ Improve sanitation and hygiene	■ Angola: Built 10 public water taps that serve 23,000 people ■ Ethiopia: Built 45 wells, public showers, washing basins, and latrines that serve 40,000 people ■ Egypt: Established technologies for wastewater treatment
MTV EXIT (End Trafficking and Exploitation)	2007	■ USAID ■ MTV Europe Foundation	■ Europe ■ Asia	■ Raise awareness and increase prevention of human trafficking	■ Filmed three documentaries on human trafficking ■ Launched animated film ■ Produced videos with bands such as Radiohead and the Killers ■ Partnered with more than 100 NGOs ■ Distributed hundreds of thousands of brochures in more than 25 languages ■ Reached out to millions of young people through concerts and music festivals

USAID also allayed regulators' concerns by choosing its corporate allies wisely. Using an established register created by the United Nations and the World Bank, USAID carefully vetted corporate partners according to their social responsibility. In this way, the agency not only reduced the risk of working with new and untested private sector partners (which could have skeletons in their corporate closets), but also gave staff members enough confidence to negotiate compacts with these companies. USAID also avoided the political and legal problems that would have arisen if a government agency had generated such a list.

As corporate alliances became more widespread, risk tolerance increased throughout the GDA. Perhaps the most celebrated early success story was initiated by Bob Hellyer, who was a USAID mission director for Angola at the time. In 2002, Hellyer announced to an initially skeptical audience of mission directors for Africa that he had signed an alliance with ChevronTexaco Corp. Through this alliance, both USAID and ChevronTexaco would commit $10 million each, for a total of $20 million to be distributed over five years. The alliance sought to support new enterprise development as Angola transitioned to a peacetime economy. More specifically, the alliance focused on expanding and strengthening the private agricultural sector in the country, delivering financial and business development services to small and medium enterprises across sectors, and providing technical assistance to the commercial banking sector in Angola to provide loans to small businesses and agriculture. Hellyer explained that because the funding was private money, the U.S. Congress could not earmark it, the OMB could not micromanage it, and the State Department budget control officers could not second-guess it. Following the meeting, the number of alliances in Africa began to rise.

Cut Red Tape

After overcoming the U.S. government's aversion to risk, USAID had to overcome the public sector's reputation within the business community for being a slow-moving, top-heavy giant. To this end, we designed the GDA to be nimble, decentralized, and responsive to its stakeholders. As a result of the GDA's swift and efficient decision-making processes, corporations such as ChevronTexaco readily join forces with the government agency.

Like many international corporations and public institutions, USAID operates with a chronic tension between the demands of headquarters and field offices. Historically, USAID has dealt with this issue by giving its 80 field offices a high level of authority. Likewise, when we created the GDA, we decided to empower the field missions to create, fund, and administer their own alliances with private sector actors. Meanwhile, the modest GDA central office, with its limited staff, budget, and authority, focused on four tasks: collecting and analyzing data, developing standards and procedures, funding regional and global alliances (which are beyond the scope of field mission funding), and providing technical support.

The GDA central office also created an extensive training program for career officers, which has been critical in getting the best results from this decentralized system. Through this program, officers learn how USAID's alliances work, what lessons and best practices the field and central offices have gleaned, how to overcome procurement challenges in the negotiation process, and how to manage risk through the vetting of new partners. This training gives field officers the skills to negotiate and manage alliances, which accelerates the new partnership model's spread within USAID. And because the personnel system of USAID requires foreign service officers to move from one field mission to another every three or four years, officers are able to take their experience and enthusiasm with them when they move to another office. This rule also has a downside, however: Some field offices retreat from their innovations when new, more risk-averse field directors take over.

Pitch a Big Tent

Another innovation that paid off for USAID was to engage a broad range of potential partners, including corporations, foundations, NGOs, ethnic diasporas, religious institutions, and universities. In this regard, USAID broke with the British and German partnership models by which governments worked almost exclusively with corporations.

USAID's big tent approach has had an unintended consequence: It has created a laboratory for experimenting with the different uses of private foreign aid and has become a rich source of information on which projects work, which do not, and under what circumstances.

One early successful alliance, for example, leveraged the tremendous informal aid that ethnic diasporas send back home in the form of remittances. Remittances are a substantial—but relatively unstudied—source of aid financing. Rather than funding just consumption, remittances also finance social services, public works projects, and microfinance programs. Tapping into the power of remittances, the Haiti USAID mission worked with UNIBANK, a relatively new Haitian bank, to channel remittances from the global Haitian diaspora to a local school construction project. Through its subsidiary UNITRANSFER, which specializes in remittances, UNIBANK put aside $1 from each remittance transaction to Haiti, which USAID then matched. The alliance then worked with the Pan American Development Foundation in 2003 and 2004 to build eight public schools in Haiti.

Other experiments have had more mixed results. The Sustainable Forest Products Global Alliance (SFPGA), for instance, is an alliance that uses market forces to protect forests around the world. Launched in July 2002, SFPGA brought together the World Wildlife Fund (WWF), the Certified Forest Products Council (CFPC, now called Metafore), Home Depot Inc., Wal-Mart Stores Inc., Anderson Corp., and Ikea, as well as several other international businesses that sell wood products. Through the SFPGA, these companies agree to use or sell forest products that the WWF and CFPC have certified as harvested in accordance with national environmental laws and regulations (which are otherwise often ignored). In return, these companies can market their products as environmentally responsible. WWF has contributed $34.2 million to the initiative, Metafore has donated $1.6 million, and USAID has contributed $10.7 million. Private companies have given an additional $27 million.

Seven years later, the SFPGA is enjoying remarkable scale: Some 16 percent of all wood products in the international marketplace fall under SFPGA's regulatory umbrella. But the alliance is not without its shortcomings: The NGOs did not want USAID to have a direct relationship with the corporations because the NGOs feared losing control of and influence over the project. Eventually USAID worked out a process directly with the corporations so that they could co-operate with the NGOs in a transparent way. The two NGOs, WWF and Metafore, had no relationship with each other because they were competitors. And because the corporations feared having a government agency interfere with corporate-NGO negotiations, USAID did not get to use its considerable environmental expertise to design the actual mechanics of implementation. In other words, inviting many different voices to the table sometimes sacrificed coherence for the sake of broad program reach.

Meanwhile, the SFPGA has not found a permanent source of funding because of skewed incentives within the alliance. And so although the SFPGA has successfully scaled, it has not yet attained financial sustainability.

Offer the Right Rewards

In addition to removing barriers to forming public-private partnerships, USAID offered incentives to seek out and cultivate these alliances. We rewrote the personnel standards (called the precepts) of the foreign service to include successful partnership building as one performance measure for advancement to the senior foreign service, from which many of the senior executives of the agency are drawn. The USAID foreign service is a highly competitive, merit-based personnel system (separate from that of the State Department) and so this change sent a powerful message that ambitious career officers should embrace the new alliance model, reach beyond traditional partners, and experiment with program designs.

USAID also created an annual prize for the best alliance of the year, which is a coveted award among senior managers and sends a message that our agency values innovation and creativity. In 2007, for instance, USAID granted the Coca-Cola Company the Alliance of the Year Award for its efforts to promote sustainable water management in developing countries through the Water and Development Alliance (WADA). Convening USAID missions, Coca-Cola bottling facilities and foundations, and the Global Environment & Technology Foundation, WADA had leveraged more than $14 million to protect watersheds and to increase poor people's access to clean water in Africa, Asia, Latin America, and the Middle East. By winning the award, Coca-Cola's development project received the imprimatur of a respected U.S. government agency, which gave the project favorable media coverage and a useful marketing message.

Unforeseen Solutions

Looking back on the past eight years, USAID's alliances not only have addressed local social and environmental problems, but also have produced unanticipated results. Despite internal conflicts, for example, the SFPGA has reached far wider and deeper into the world's forests and forest products industries than any one of its members could have done alone. More broadly, the SFPGA has demonstrated that with the right partners, private interests—such as the profit motives of lumber companies and retailers—can be made to work for the public interests—including the preservation of soil, habitat, and climate-regulating forests.

Another unintended yet desirable consequence of these alliances has been the education of aid agency officers and corporate managers in each other's disciplines. Having learned robust evaluation techniques from aid agencies, corporate executives now understand that their corporate philanthropy projects previously lacked rigorous performance measures. They also are more aware of foreign aid programs and have more positive opinions of government aid agencies' activities. And having worked alongside socially responsible corporations, aid officers now know the extensive technical expertise, innovative cultures, and useful technologies that corporations offer.

For its part, USAID has likewise learned that its partners have much more to offer than cash. On average, USAID funds about 25 percent of its alliance program costs, whereas it covers much higher ratios of its NGO program costs. Yet with private sector partners, USAID not only pays proportionally less, but also receives considerably more in noncash inputs such as technology transfers, specialized skills and competencies, market access, and even intangibles such as an understanding of market forces (and market failures). Some of these noncash inputs make strategic contributions of much greater importance than additional cash.

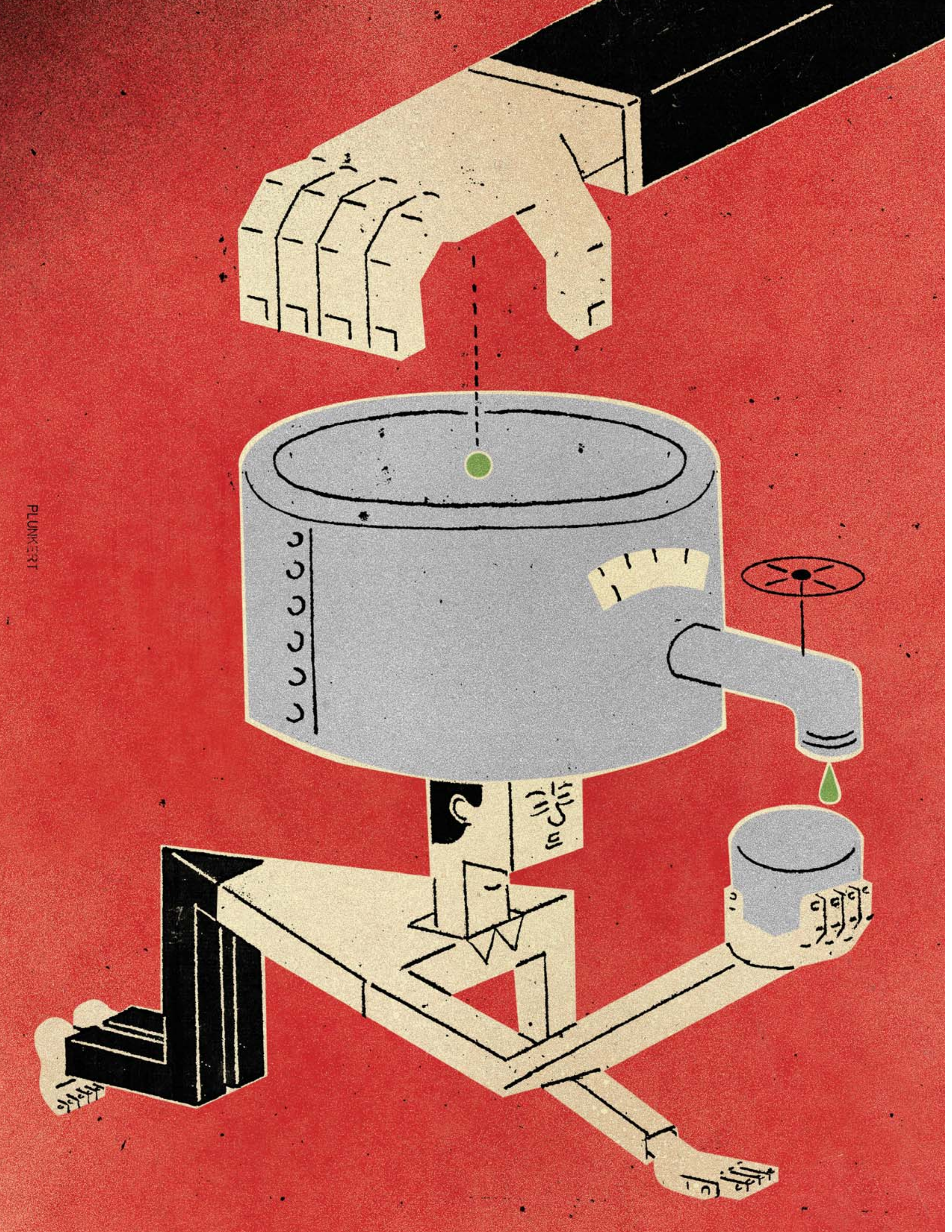
Simply Better

The new generation of development alliances is evolving away from short-term, stand-alone, multi-partner projects toward a more efficient and durable model that participants can continue to scale long after government agencies have exited. As USAID has learned, the more participants in an alliance, the higher the likelihood that they will have conflicting organizational missions and business processes (as was the case with SFPGA); that they will encounter delays in negotiating the alliance; and that they will form complex management systems for their programs. These conflicts, delays, and complexities in turn lead to higher costs—a luxury that government agencies like USAID cannot afford. To reduce transaction costs, this new generation of development alliances will rely less on single-project partnerships and will instead build stable public-private coalitions that operate multiple global projects.

USAID has now established alliances with some of the largest corporations in the world, many of which have enormous supply chains serving hundreds of millions of customers across the globe. As seen in the Rwandan coffee alliance, development projects that get plugged into these supply chains are more likely to lift poor but productive families out of poverty. Corporate philanthropy is admirable, nonprofit expertise is desirable, and government intervention is sometimes necessary, but none of these alone is sufficient to fuel large-scale development successes over the long term—particularly given the current global economic recession. The new generation of development alliances, however, will be both scalable and sustainable because it will integrate programs with business systems and corporate supply chains, identifying where development interests and corporate profitability meet. ■

Note

1 Andrea Binder, Markus Palenberg, and Jan Martin Witte, *Engaging Business in Development: Results of an International Benchmarking Study*, Berlin: Global Public Policy Institute, 2007.


PLUNKERT

The Nonprofit Starvation Cycle

By Ann Goggins Gregory
& Don Howard

Illustration by David Plunkert

A vicious cycle is leaving nonprofits so hungry for decent infrastructure that they can barely function as organizations—let alone serve their beneficiaries. The cycle starts with funders' unrealistic expectations about how much running a nonprofit costs, and results in nonprofits' misrepresenting their costs while skimping on vital systems—acts that feed funders' skewed beliefs. To break the nonprofit starvation cycle, funders must take the lead.

ORGANIZATIONS THAT BUILD ROBUST infrastructure—which includes sturdy information technology systems, financial systems, skills training, fundraising processes, and other essential overhead—are more likely to succeed than those that do not. This is not news, and nonprofits are no exception to the rule.

Yet it is also not news that most nonprofits do not spend enough money on overhead. In our consulting work at the Bridgespan Group, we frequently find that our clients agree with the idea of improving infrastructure and augmenting their management capacity, yet they are loath to actually make these changes because they do not want to increase their overhead spending. But underfunding overhead can have disastrous effects, finds the Nonprofit Overhead Cost Study, a five-year research project conducted by the Urban Institute's National Center for Charitable Statistics and the Center on Philanthropy at Indiana University. The researchers examined more than 220,000 IRS Form 990s and conducted 1,500 in-depth surveys of organizations with revenues of more than $100,000. Among their many dismaying findings: nonfunctioning computers, staff members who lacked the training needed for their positions, and, in one instance, furniture so old and beaten down that the movers refused to move it. The effects of such limited overhead investment are felt far beyond the office: nonfunctioning computers cannot track program outcomes and show what is working and what is not; poorly trained staff cannot deliver quality services to beneficiaries.

Despite findings such as these, many nonprofits continue to skimp on overhead. And they plan to cut even more overhead spending to weather the current recession, finds a recent Bridgespan study. Surveying more than 100 executive directors of organizations across the country, we found that 56 percent of respondents planned to reduce overhead spending. Yet decreasing already austere overhead spending (also called *indirect expenses*) may jeopardize organizations' very existence—not to mention their ability to fulfill their missions. And although the Obama administration's stimulus package may fuel rapid growth among some nonprofits, many will lack the infrastructure to manage the windfall and may well be crushed under the weight of all those well-intended funds.

Why do nonprofits and funders alike continue to shortchange overhead? To answer this question, we studied four national nonprofits that serve youth. Each organization has a mix of funding, including monies from government, foundation, and individual sources. We also interviewed the leaders and managers of a range of nonprofit organizations and funders, as well as synthesized existing research on overhead costs in the nonprofit sector.

Our research reveals that a vicious cycle fuels the persistent underfunding of overhead.[1] (For an illustration, see "The Cycle That Starves Nonprofits" on page 51.) The first step in the cycle is funders' unrealistic expectations about how much it costs to run a nonprofit. At the second step, nonprofits feel pressure to conform to funders' unrealistic expectations. At the third step, nonprofits respond to this pressure in two ways: They spend too little on overhead, and they underreport their expenditures on tax forms and in fundraising materials. This underspending and underreporting in turn perpetuates funders' unrealistic expectations. Over time, funders expect grantees to do more and more with less and less—a cycle that slowly starves nonprofits.

Although several factors drive the cycle of nonprofit starvation, our research suggests that taking action at the first stage—funders' unrealistic expectations—could be the best way to slow or even stop the cycle. Changing funders' expectations, however, will require a coordinated, sector-wide effort. At a time when people need nonprofit services more than ever and when government is increasingly turning to nonprofits to solve social problems, this effort is necessary to keep nonprofits healthy and functioning.

Funders' Unrealistic Expectations

The nonprofit starvation cycle is the result of deeply ingrained behaviors, with a chicken-and-egg-like quality that makes it hard to determine where the dysfunction really begins. Our sense, however, is that the most useful place to start analyzing this cycle is with funders' unrealistic expectations. The power dynamics between funders and their grantees make it difficult, if not impossible, for nonprofits to stand up and address the cycle head-on; the downside to doing so could be catastrophic for the organization, especially if other organizations do not follow suit. Particularly in these tough economic times, an organization that decides—on its own—to buck the trend and report its true overhead costs could risk losing major funding. The organization's reputation could also suffer. Resetting funder expectations would help pave the way for honest discussions with grantees.

Many funders know that nonprofit organizations report artificially low overhead figures, and that the donor literature often reflects grossly inaccurate program ratios (the proportion of program-related expenses to indirect expenses). Without accurate data, funders do not know what overhead rates *should* be. Although for-profit analogies are not perfect for nonprofits, they do provide some context for thinking about how realistic—or not—average overhead rates in the nonprofit sector are. As the figure on page 53 shows, overhead rates across for-profit industries vary, with the average rate falling around 25 percent of total expenses. And among service industries—a closer analog to nonprofits—none report average overhead rates below 20 percent.

In the absence of clear, accurate data, funders must rely on the numbers their grantees report. But as we will later discuss, these data are riddled with errors. As a result, funders routinely require nonprofits to spend unhealthily small amounts on overhead. For instance, all four of the youth service organizations that we studied were managing government contracts from local, state, and federal sources, and none of the contracts allowed grantees to use more than 15 percent of the grant for indirect expenses (which include operations, finances, human resources, and fundraising).

Some foundations allot more money for indirect costs than do government agencies. Yet foundations are quite variable in their indirect cost allowances, with the average ranging from 10 percent to 15 percent of each grant. These rates hold true even for some of the largest, most influential U.S. foundations. And foundations can be just as rigid with their indirect cost policies as government funders.

Many times, the indirect allowances that grants do fund don't even cover the costs of administering the grants themselves. For example, when one Bridgespan client added up the hours that staff members spent on reporting requirements for a particular government grant, the organization found that it was spending about 31 percent of the value of the grant on its administration. Yet the funder had specified that the nonprofit spend only 13 percent of the grant on indirect costs.

Most funders are aware that their indirect cost rates are indeed too low, finds a recent Grantmakers for Effective Organizations (GEO) study. In this national survey of 820 grantmaking foundations, only 20 percent of the respondents said that their grants include enough overhead allocation to cover the time that grantees spend on reporting.[2]

Individual donors' expectations are also skewed. A 2001 survey conducted by the Better Business Bureau's Wise Giving Alliance

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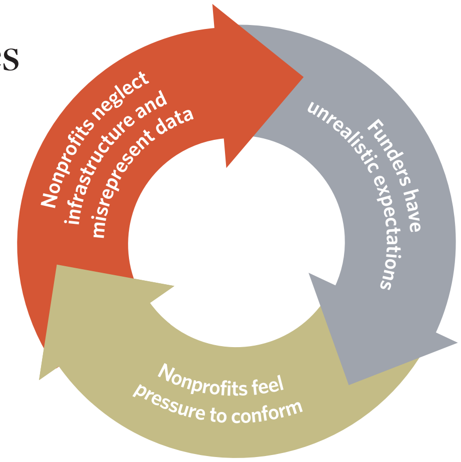
The Cycle That Starves Nonprofits

Three forces intertwine to deprive organizations of much-needed overhead funding.



found that more than half of American adults felt that nonprofit organizations should have overhead rates of 20 percent or less, and nearly four out of five felt that overhead spending should be held at less than 30 percent. In fact, those surveyed ranked overhead ratio and financial transparency to be more important attributes in determining their willingness to give to an organization than the success of the organization's programs.

Not only do funders and donors have unrealistic expectations, but the nonprofit sector itself also promotes unhealthy overhead levels. "The 20 percent norm is perpetuated by funders, individuals, and nonprofits themselves," says the CFO of one of the organizations we studied. "When we benchmarked our reported financials, we looked at others, [and] we realized that others misreport as well. One of our peer organizations allocates 70 percent of its finance director's time to programs. That's preposterous!"

In this context, nonprofits are reluctant to break ranks and be honest in their fundraising literature, even if they know that they are fueling unrealistic expectations. They find it difficult to justify spending on infrastructure when nonprofits commonly tout their low overhead costs. For example, Smile Train, an organization that treats children born with cleft lip and palate conditions, has claimed that "100 percent of your donation will go toward programs ... zero percent goes to overhead." Nevertheless, the fine print goes on to say that this is not because the organization has no overhead; rather, it is because Smile Train uses contributions from "founding supporters" to cover its nonprogram costs.

This constellation of causes feeds the second stage in the nonprofit starvation cycle: pressure on nonprofits to conform to unrealistic expectations. This pressure comes from a variety of sources, finds the Nonprofit Overhead Cost Study. The survey found that 36 percent of respondents felt pressure from government agencies, 30 percent felt pressure from donors, and 24 percent felt pressure from foundations.[3]

Underfed Overhead

In response to pressure from funders, nonprofits settle into a "low pay, make do, and do without" culture, as the Nonprofit Overhead Cost Study calls it. Every aspect of an organization feels the pinch of this culture. In our consulting work with nonprofits, for example, we often see clients who are unable to pay competitive salaries for qualified specialists, and so instead make do with hires who lack the necessary experience or expertise. Similarly, many organizations that limit their investment in staff training find it difficult to develop a strong pipeline of senior leaders.

These deficits can be especially damaging to youth-serving organizations, notes Ben Paul, president and CEO of After-School All-Stars, a Los Angeles-based nonprofit organization that provides after-school and summer camp programs for at-risk youth nationwide. "It is clear to anyone who has led an organization that the most important capital in a company is the human capital," says Paul. "In after-school we have a saying: Kids come for the program, but stay for the staff. If we don't hire the right people, we might as well not run after-school programs."

Meanwhile, without strong tracking systems, nonprofits have a hard time diagnosing which actions truly drive their desired outcomes. "The catch-22 is that, while organizations need capacity-building funding in order to invest in solid performance tracking, many funders want to see strong program outcome data *before* they will provide such general operating support," says Jamie McAuliffe, a portfolio manager at the New York-based Edna McConnell Clark Foundation.

Take the case of a well-respected network of youth development programs. To protect the identity of this organization, we will call it the Learning Goes On Network (LGON). Poised for a huge growth spurt, LGON realized that its data systems would be hopelessly inadequate to accommodate more clients. An analysis showed that program staff spent 25 percent of their time collecting data manually. One staff member spent 50 percent of her time typing results into an antiquated Microsoft Access database.

Staff members can become so accustomed to their strained circumstances that they have trouble justifying even much-needed investments in overhead, our interviews revealed. "We [had] known for a long time that a COO was vital to our growth but [hadn't] been able to fund one," relates the CEO of one of the four youth development organizations that we studied. But when his organization's board finally created the COO position, the rest of the staff resisted. "They had lived so long in a starved organization that the idea of hiring a COO was shocking to them."

Misleading Reporting

The final driver of the cycle that starves nonprofit infrastructure is nonprofits' routine misrepresentation of how much they actually spend on overhead. The numbers that nonprofits report on their financial statements "[defy] plausibility," finds the Nonprofit Overhead Cost Study. Upon examination of more than 220,000 nonprofit organizations, researchers found that more than a third of the organizations reported no fundraising costs whatsoever, while one in eight reported no management and general expenses. Further scrutiny found that 75 percent to 85 percent of these organizations were incorrectly reporting the costs associated with grants.

Our study of the four youth-serving nonprofits likewise reported discrepancies between what nonprofits spent on overhead and what they reported spending. Although they reported overhead rates ranging from 13 percent to 22 percent, their actual overhead rates ranged from 17 percent to 35 percent.

Many factors support this underreporting of nonprofit costs. According to a survey conducted by *The Chronicle of Philanthropy* in 2000, a majority of nonprofits say that their accountants advised them to report zero in the fundraising section of Form 990.[4] Limited surveillance of nonprofits' Form 990 tax reports only exacerbates the problem: The IRS rarely levies the $50,000 penalty for an incomplete or inaccurate return, and generally applies it only when an organization deliberately fails to file the form altogether. According to the *Chronicle* study, "Improperly reporting these expenses is likely to have few, if any, consequences."

The IRS' ambiguous instructions likewise lead to error, report several sources. For example, nowhere does the IRS explicitly address how to account for nonprofit marketing and communications. As a result, many organizations allocate all marketing and communications expenses to programs when, in most cases, these expenses should be reported as administrative or fundraising overhead.

Government agencies likewise have varying and ambiguous definitions of indirect costs. The White House Office of Management and Budget, for example, defines indirect costs as "those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective." It then goes on to say that "because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the types of cost that may be classified as indirect cost in all situations."[5]

There is some good news. Currently, the U.S. Government Accountability Office (GAO) is conducting a study of various federal grantors' definitions of indirect costs. As Stan Czerwinski, the director of strategic issues for GAO, explains, "The goal is to achieve consistency, so that when nonprofits go in for funding, they have clarity (as do funders) about what they're actually going to get reimbursed for." The study is in the early stages, but as Czerwinski notes, the need is clear: "We don't find anybody telling us that we're barking up the wrong tree."

Proper Care and Feeding

Although the vicious cycle of nonprofit starvation has many entry points and drivers, we believe that the best place to end it is where it starts: Funders' unrealistic expectations. Foundations and government funders must take the lead because they have an enormous power advantage over their grantees. When funders change their expectations, nonprofits will feel less need to underreport their overhead. They will also feel empowered to invest in infrastructure.

The first step that funders should take is to shift their focus from costs to outcomes. In the nonprofit world, organizations are so diverse that they do not share a common indicator of program effectiveness. In the absence of this indicator, many funders try to understand an organization's efficiency by monitoring overhead and other easily obtained yet faulty indicators. Funders need to refocus their attention on impact by asking "What are we trying to achieve?" and "What would define success?" In so doing, they will signal to their grantees that impact matters more than anything else. Even focusing on approximate or crude indicators (for example, "Are we getting an A or a C on our impact goals?") is better than looking at cost efficiencies, as focusing on the latter may lead to narrow decisions that undermine program results.

Funders must also clearly communicate their program goals to their grantees. Having established that funder and grantee share the same goals, funders should then insist on honest answers to the question "What will it take to deliver these outcomes consistently, or to deliver these outcomes at an even higher level of quality or quantity?"

One of our study participants, for instance, worked closely with its major funder to think through this question, and ultimately determined it needed a sizable investment in technology to support its projected growth. The funder agreed that only by making such an investment would the organization be able to track outcomes uniformly and to make program improvements quickly.

When feasible, funders should help meet grantees' identified infrastructure needs by making general operating support grants. Grantmakers and nonprofits agree that more operating support is very likely to improve an organization's ability to achieve results, finds the 2008 Grantmakers for Effective Organizations study. And a 2006 CompassPoint Nonprofit Services study of nearly 2,000 nonprofit executives in eight metropolitan areas reveals that receiving general operating support played a major role in reducing burnout and stress among executive directors.[6] Yet although 80 percent of the foundations in this study made some general operating grants, they dedicated a median of only 20 percent of their grant dollars to this kind of support.

Regardless of the type of support they provide, funders should encourage open, candid discussions with their grantees about what the latter need to be effective. Many funders' grantmaking processes are not set up to consider the full scope of what grantees do, and why. As a result, their grants are not as flexible as they need to be. Yet when funders fully understand their grantees' operations, they are more likely to meet their grantees' needs.

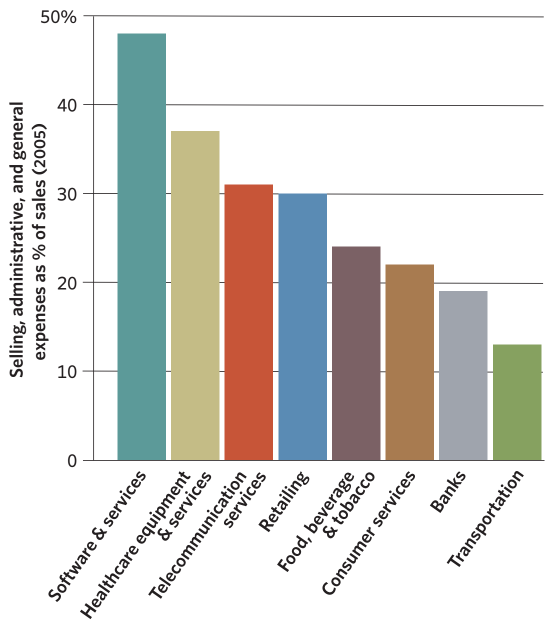
Although changing their expectations will have the greatest impact on the nonprofit starvation cycle, funders can also intervene in other useful ways. When making use-restricted grants, funders should commit to paying a greater share of administrative and fundraising costs. Indeed, in 2004, the board of the Independent Sector encouraged funders to pay "the fair proportion of administrative and fundraising costs necessary to manage and sustain whatever is required by the organization to run that particular project."

Likewise, rather than prescribing an indirect expense rate for all grants, government funders should allow nonprofits to define their true overhead needs in grant applications and, so long as these needs are justifiable, pay for them. For example, some federal funding contracts allow a nonprofit to justify an indirect cost rate (within guidelines), which the organization can then use for all its federal grant applications. Extending such a policy to all federal, state, and local government contracts would go a long way toward helping nonprofits deliver better programs while being able to pay for their grants' management.

Finally, to foster transparent and accurate reporting, funders should encourage the development of a standard definition of the term *overhead*. Currently, organizations have to report their overhead differently for nearly every grant that they receive. Standardization would allow funders to compare apples with apples, as well as allow grantees to understand better their own overhead investments—or

The Real Cost of Doing Business

Most for-profit industries spend far more on overhead than the 10 to 20 percent norm in the nonprofit sector.



SOURCE: Compustat; Standard & Poor's Global Industry Classification Standard Structure

lack thereof. Having a dialogue about real overhead rates could also help shift the focus to the real target: outcomes.

What Grantees Can Do

The burden of breaking the cycle of nonprofit starvation does not rest solely with funders. Nonprofit leaders also play a role. As a baseline task, they should commit to understanding their real overhead costs and their real infrastructure needs. At LGON, for instance, senior managers spent several months digging into their costs, analyzing their current systems—including the organization's subpar tracking process—and identifying gaps in capacity. After this strategic planning process, the organization could articulate a clear plan for a new tracking system and a 150 percent increase in nonprogram staff over three years.

Nonprofits must then speak truth to power, sharing their real numbers with their boards and then engaging their boards' support in communicating with funders. Case studies of organizations that have successfully invested in their own infrastructure have repeatedly noted the need for a shared agenda between the leadership team and the board. The executive director of LGON, for example, communicated early and often with her board members throughout the strategic planning process. She also facilitated several meetings to address infrastructure needs.

For their part, board members should ask the tough questions before funders do, namely: "What does this organization really need to succeed?" "Where are we underinvesting?" and "What are the risks we're taking by underinvesting in these areas?" Board members should encourage nonprofit leaders to develop strategies that explicitly recognize infrastructure needs. In developing plans for infrastructure, board members can help, notes Chris Brahm, chairman of the board of directors at Larkin Street Youth Services, a San Francisco nonprofit that serves homeless and runaway youth: "The people running agencies are often consumed with programs and raising money. Board members, whether businesspeople or otherwise, can bring external perspective on overhead services."

At LGON, for example, the executive director identified a handful of board members who were fervent supporters of the emerging strategic vision. These board members then communicated to their colleagues how much overhead this vision would require.

During these discussions, both board members and managers should focus on how investments in infrastructure will benefit the organization's beneficiaries, rather than reduce costs. Even within the confines of a "cost conversation," they should emphasize how infrastructure investments may actually reduce the costs of serving beneficiaries over time. One organization in our study, for instance, determined that an investment in technological infrastructure yielded $350,000 per year by freeing up staff time and consolidating "scrappy" systems.

Finally, organizations must attempt to educate their donors. "Donors don't want to pay for an organization's rent, or phone bill, or stamps," notes Paul, "but those are essential components of everyday work. You can't run a high-performing organization from your car. And there are many ways to explain these types of expenses to donors."

Both funders and grantees are feeling the sting of the current recession. But this economic downturn is no excuse to cut overhead funding. "If a nonprofit's leaders are feeling as if they cannot raise money to support overhead, I think they're confusing the issue," says Brahm. "The real issue is that they can't raise enough money, period. Either they do not have, or they have not been able to communicate, a results story that is compelling to funders."

Rather than being the reason to reduce overhead spending, the recession is an excellent opportunity to redress decades-long underinvestment in nonprofit infrastructure. "There is real potential for change if all of the major stakeholders—government, private funders, and the nonprofits themselves—take steps to acknowledge that capacity building is critical to the health of an organization," says McAuliffe. And although the forces that fuel the nonprofit starvation cycle are strong, the opportunity to achieve more for beneficiaries in the long term should compel funders and grantees alike to stop the cycle. ■

Former Bridgespan Group manager William Bedsworth contributed to this article.

Notes

1 See also Kennard Wing, Tom Pollak, and Patrick Rooney, *How Not to Empower the Nonprofit Sector: Under-Resourcing and Misreporting Spending on Organizational Infrastructure*, Washington, D.C.: Alliance for Nonprofit Management, 2004. Wing, Pollak, and Rooney are three of the lead researchers on the Nonprofit Overhead Cost Study.

2 William H. Woodwell Jr. and Lori Bartczak, *Is Grantmaking Getting Smarter? A National Study of Philanthropic Practice*, Washington, D.C.: Grantmakers for Effective Organizations, 2008.

3 Kennard Wing and Mark Hager, *Who Feels Pressure to Contain Overhead Costs?*, Paper presented at the ARNOVA Annual Conference, 2004.

4 Holly Hall, Harvy Lipman, and Martha Voelz, "Charities' Zero-Sum Filing Game," *The Chronicle of Philanthropy*, May 18, 2000.

5 White House Office of Management and Budget, *Circular A-122 (Revised): Cost Principles for Nonprofit Organizations*.

6 Jeanne Bell, Richard Moyers, and Timothy Wolfred, *Daring to Lead 2006: A National Study of Nonprofit Executive Leadership*, San Francisco: CompassPoint Nonprofit Services, 2006.

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By Suzie Boss

EDUCATION

Putting More Fun into Play

▶ Turn kids loose with sand, water, and simple stuff they can move around—and then get out of their way. In no time, they'll create their own world of castles, fanciful creatures, and vehicles powered by sheer imagination.

Such childish fun may seem out-of-date to today's heavily scheduled kids and their well-meaning parents. But free play is about to get a big boost. Imagination Playground, designed pro bono by architect David Rockwell in collaboration with the New York City Department of Parks & Recreation, is under construction in lower Manhattan.

When the playground opens next year, it will showcase a multilevel environment designed to let kids act like kids. Four years in the planning, the playground will come with trained "play associates." Their charge: encourage youthful creativity while reminding parents and nannies to take a giant step back.

Now, a new partnership between the Rockwell Group and KaBOOM!, a nonprofit that helps communities build playgrounds, is preparing to take the essential ingredients of the Imagination Playground to a much bigger scale.

The two organizations have formed a for-profit venture that will handle distribution and marketing of Imagination Playground in a Box. The basic product is a container on wheels, not unlike a magician's box, that comes stocked with kid-friendly building materials. These gears, blocks, and giant noodles are made of weatherproof, environmentally friendly foam.

Children in the Brownsville neighborhood of Brooklyn, N.Y., enjoying KaBOOM!'s new Imagination Playground in a Box.

"We want to make these ideas mobile and portable," explains Darell Hammond, KaBOOM! founder and CEO. He envisions kits going into back yards, community centers, housing projects, schools, or any other space big enough for kids to congregate. The idea isn't to replace traditional playgrounds but to complement them. "We want to create better play experiences," Hammond says, by encouraging "creativity and unstructured, child-directed play."

"Our idea of Imagination Playground was never as a one-site project," Rockwell adds, but rather the launch of a larger play initiative. "When KaBOOM! approached us because of their interest in this innovative and transformative perspective on play, it seemed like a really natural and perfect partnership."

KaBOOM! has managed to change the game when it comes to how playgrounds get built. Since the organization was founded 14 years ago, the percentage of playgrounds built by community volunteers has mushroomed from 1 percent to 40 percent. KaBOOM! is the nation's leading purchaser of playground equipment, which gives it a voice about what gets built. The group is also adept at recruiting business partners to help fund and construct the playgrounds.

Initially, KaBOOM! planned to seek foundation support to fund the rollout of Imagination Playground in a Box. When the economy took a dive and grant funding evaporated, Hammond says, setting up a for-profit company "seemed to be the fastest way to bring the product to market while letting us control quality and keep the price down." ■

ECONOMIC DEVELOPMENT

Banking on Change

▶ On a study trip to Oaxaca, Mexico, with a group of fellow philanthropists, Tricia McKay visited a low-income credit union where she saw customers routinely making deposits and taking out small loans. Back in Seattle where she heads the Medina Foundation, McKay couldn't help but notice a lack of similar services for the working poor of Washington state. She became acutely aware of "payday lenders and check-cashing services on every corner of low-income neighborhoods. We have a market failure," she concluded, when it comes to serving "the unbanked, underbanked, and want-to-be-banked."

That gap narrowed a bit in May when a five-year effort spearheaded by the Medina Foundation resulted in the grand opening of Express Credit Union. Actually, it's a reopening of a 75-year-old institution that originally served transportation workers. The old Express was losing members and lacked capital to modernize its systems.

The makeover brings in a new board of directors and CEO, a new business plan, and a sister nonprofit called Express Advantage to provide financial literacy education and other support. An infusion of capital includes $1.4 million from the Medina Foundation plus smaller grants from other philanthropists.

Through an unusual partnership, Washington's largest credit union, BECU, is helping incubate this new enterprise by pro-

Photographs by Talismanphoto (top) and Blandon Belushin (bottom) viding Express with in-kind infrastructure and back-office support. Under the new plan, Express remains a freestanding entity with a mission to serve low-income people. After five years of in-kind support, BECU will start earning a percentage of net revenues. "This is not a charity case," McKay emphasizes. "Low-income people deserve good business solutions. And businesses have a right to earn in this space—appropriately."

The estimated 100 million underbanked Americans need a different slate of financial products from more affluent consumers, notes Bobbie Britting, research director in the consumer lending service at TowerGroup. "They often need an advance on their next paycheck and can't afford to have a bank hold their check for four days," she says. Bill paying tends to happen "at the very last minute." Credit history may be thin or sketchy for those who live in a cash-only economy. Avoiding financial meltdown would be easier with access to affordable credit, but short-term, unsecured loans "are products that banks have walked away from," Britting says.

Express offers products that meet clients' urgent needs while also helping them establish better habits. Instead of rolling over two-week payday loans at annual interest rates that can top 300 percent, Express offers a 90-day loan at 15 percent interest. With successful repayment, a third of that fee converts to a savings deposit. Low-cost international remittances enable customers to send cash to distant relatives without a steep charge for wire transfers. Rather than handing out wads of cash, Express gives borrowers a loaded debit card.

Instead of opening branches, Express reaches customers by setting up tellers—known as community member service representatives—inside partnering nonprofit organizations that already serve this population in their home neighborhoods. Community teller Maricel Valdez understands her customers' challenges. "I've been in their shoes," she says. A single parent who recently bought her first home, Valdez taught herself about personal finance to gain more stable financial footing. "I tell our customers I've come this far and so can you." ■

SOCIAL ENTREPRENEURSHIP

Embracing Practical Solutions

▶ Every hour, 450 low-birth-weight babies die in the developing world. Despite mother love and warm blankets, their tiny bodies don't have enough fat to regulate temperature and protect fragile organs. Outcomes would improve with better access to incubators, but the $20,000 per unit cost, not to mention the need for electricity, makes this an impractical solution for rural villages.

A low-tech alternative incubated on the Stanford University campus is now getting ready to roll out in India, which has an unfortunate corner on the world market of low-birth-weight babies. Embrace, a fledgling nonprofit, will soon begin distributing a baby warmer that looks like a miniature sleeping bag. It features a special insert containing a waxy compound. When heated by hot water, this phase-changing material maintains a constant temperature of 98.6 degrees Fahrenheit for up to four hours. At a unit price of about $25, the baby warmer is a low-cost but potentially high-impact innovation.

Midwives in Delhi using Embrace's baby warmer to keep low-birth-weight babies at a comfortable and constant 98.6 degrees Fahrenheit.

Embrace CEO Jane Chen was part of the product development team, which included engineering and business students in a class called Entrepreneurial Design for Extreme Affordability. By the end of spring term 2007, they had reviewed medical research, dispatched a team member to Nepal for fieldwork, and come up with a basic prototype for the sleeping bag.

"We knew we were sitting on a great idea," Chen says. They had other matters to attend to—such as finishing graduate school—before incorporating as a nonprofit in early 2008. That same year, Chen and cofounder Rahul Panicker were named Echoing Green fellows. Prizes and additional foundation support brought their 2009 budget to $400,000. A high-powered team of advisors includes Stanford President John Hennessy.

To gather more grassroots feedback, Chen traveled to India to share the prototype with the "midwives and moms" who will be the intended audience. "There was great receptiveness. This was something that people just understood immediately," she says. Focus groups added critical feedback. Indians recommended against using white, for instance, because that's the color associated with death and mourning. Design iterations have resulted in a product that's waterproof, reusable, easily repaired, and made to fit snugly against a mother's chest to ensure newborn bonding.

Embrace expects to start distributing in 2010 through a network of health professionals, midwives, and NGOs. To build its grassroots network, Embrace moved operations to India in early summer. In Hubli, located about 250 miles north of Bangalore, Embrace is the newest player in a regional "sandbox" funded by the Deshpande Foundation, a family foundation based in Stoneham, Mass.

"We're trying to create an ecosystem for innovation and entrepreneurship in this region of India," explains Nishith Acharya, the foundation's executive director. Foundation support brings logistical help, including transportation and office space for the Embrace team and interns. It also means introductions to the 70 other NGOs at work in the sandbox, along with others whose buy-in will be critical to ramping up distribution and marketing efforts. ■

PHOTOGRAPHS COURTESY OF EMBRACE

HEALTH CARE

In Their Own Words

▶ Lorena Carrillo is a Mexican immigrant who supports her family as a domestic worker in San Francisco. Domésticas like Carrillo can feel invisible in the well-to-do neighborhoods where they work. That's changing, however, thanks to a high-profile advertising and social media campaign that plasters domestic workers' faces on billboards, buses, and blogs as if they were fashion models. The goal is greater awareness of everything from workers' rights to nontoxic cleaning products that reduce health risks for domésticas and employers alike.

This creative campaign is one of eight to emerge from a national, three-year initiative called New Routes to Community Health. Funded by the Robert Wood Johnson Foundation and the Benton Foundation, New Routes aims to improve the health of vulnerable and often isolated populations by enabling immigrants to use media to tell their own stories.

User-created content focuses on a range of topics and employs an assortment of digital tools. In Boston, Haitian immigrants are producing a series of radio soap operas, or telenovelas, to raise awareness of depression and anxiety within their community. In Chicago, young Latinos are writing and staging theatrical productions that break down cultural taboos about sexuality and other sensitive topics.

Although they differ in details, the eight projects "all deal with mental health issues in some way," says Beth Mastin, New Routes' program director. "It's all about the disempowerment and dislocation that come with trying to make a new home in a foreign country." New Routes' Web site amplifies the conversation by posting content from all eight projects, creating a media-rich clearinghouse on immigrant health topics.

To ensure collaboration, proposals had to include three partners to qualify for a three-year, $225,000 grant. Each project includes a managing partner, media partner, and immigrant partner. "The immigrant partner is first among equals," Mastin adds. Managing partners, mostly universities, provide grant management along with academic expertise. Media partners, such as station WHYY in Philadelphia, handle technical training so that immigrants can use digital tools successfully.

That leaves immigrant organizations to focus on developing content that matters most to the populations they serve, whether it's Latina victims of domestic violence in Oakland, Calif., or Somali refugee families coping with mental illness in Minneapolis. Projects build local leadership capacity, Mastin adds, "so that immigrants literally find their voice and are able to articulate their concerns."

Ba Nguyen, an elderly Vietnamese immigrant living in Philadelphia, is a good example. At a digital storytelling workshop in the WHYY studios, she was a quick study when it came to using video gear. Before long, she was teaching other elders from Philadelphia's Southeast Asian community how to conduct on-camera interviews. Their digital stories will help fellow immigrants overcome language and cultural barriers so they can better communicate with doctors about hypertension and other health concerns. ■

The Entrepreneurial Union

How the Freelancers Union is modernizing the labor movement for independent workers

By Amy Wilkinson

When the Internet company that Karen Kelly worked for was sold and her job disappeared, she set out to become a freelance writer in New York City. Married to a musician and raising a young son, she struggled to find affordable health care.

Across the country in Pasadena, Calif., Colleen Nelson had a different problem. As a media consultant, she had steady work with MGM Film Studios. But, working from home, she felt isolated.

Both women eventually found their way to the Freelancers Union, a Brooklyn, N.Y.-based nonprofit that provides self-employed workers with health insurance, retirement plans, community events, and political representation. Unlike most employee benefits in the United States, which are tied to particular companies, the Freelancers Union's offerings can travel with independent workers from job to job and from project to project.

Founded in Brooklyn, N.Y., the Freelancers Union now recruits members nationwide, including in Los Angeles.

PHOTOGRAPH COURTESY OF THE FREELANCERS UNION

Through the Freelancers Union, Kelly purchased health insurance for herself and her family. She also met an accountant at a tax workshop, and improved her Web site "2,000 percent" after attending a union-sponsored Web design seminar, she says. Meanwhile, Nelson began collaborating with like-minded union members in Los Angeles. "The Freelancers Union provides a sense of stability knowing that there is a place to go to get help, contacts, ideas, and other resources," says Nelson. "It's daunting working on your own."

Today, 26 percent of U.S. workers are self-employed as Web designers, software developers, financial advisors, artists, writers, musicians, and consultants—to name a few occupations. This number is up from 19 percent in 2006, reports Kelly Services Inc., a Troy, Mich.-based staffing service. The rise of the free agent economy is allowing more and more people to be their own bosses, liberating them from the confines of a traditional office. It also allows companies to cut costs to meet changing market demands.

With the freedom and flexibility of self-employment, however, come the trade-offs of stability and job security. Freelance paychecks can be erratic. Freelance contractors must pay out of pocket for their own health insurance and retirement plans, and they rarely qualify for unemployment.

Amy Wilkinson is a senior fellow at Harvard University's Center for Business and Government and a public policy scholar at the Woodrow Wilson International Center for Scholars. She is writing a book about new paradigms in leadership.

To meet the needs of the growing freelance workforce, Sara Horowitz created the precursor to the Freelancers Union, called Working Today, in 1995. (The organization still conducts research and policy analysis.) In 2001, she launched the first version of a new union, the Portable Benefits Network, which was renamed the Freelancers Union in 2003. The Freelancers Union is not just another labor organization. Instead, it updates classic trade unionism with the modern impulses of social entrepreneurship, supporting itself largely with fees for services. At the same time, the Freelancers Union reveals its trade union spirit by working through political channels to secure better conditions for independent workers.

By making the right innovations at the right time, the organization now has some 115,000 members from all 50 states. And in the last 18 months alone, its membership has grown by 86 percent. For her efforts to create a new social safety net, Horowitz won a MacArthur Foundation "Genius" Fellowship in 1999.

"The Freelancers Union is writing new rules for the new workforce," says Cheryl Dorsey, president of Echoing Green, a nonprofit that supports social entrepreneurs, including Horowitz and her organization. "Sara's great insight was to recognize that the social safety net that followed Franklin D. Roosevelt's New Deal no longer meets the needs of the freelance workforce."

RENEW THE UNION

Customize offerings to individual needs

Charge fees for services

Use the Internet to organize professionally, politically, and socially

Advocate for legislative change

UNION BUSINESS

Horowitz comes from a long line of labor organizers. Her grandfather was vice president of the International Ladies Garment Workers Union in New York, and her father was a union lawyer. "I came to social entrepreneurship accidentally," she says. "I grew up in a completely lefty family where being an entrepreneur was a dirty word."

As a union organizer and union-side lawyer, Horowitz spent 1995 at Harvard University's John F. Kennedy School of Government, rethinking her own assumptions while earning a master's degree in public policy. She came to believe that existing labor laws and regulations didn't fit the freelance economy. The old union model that offered standardized packages did not meet the individual needs of such a diverse group of workers.

"I kept thinking if you want to build the next union movement, what will be the killer app that will get it moving?" Horowitz explains. "The No. 1 issue was health insurance."

To provide access to health care as well as dental, disability, and life insurance, the Freelancers Union uses the bulk purchasing power of its many members, which opens doors and drives down premiums. Discounts are available nationwide for such health-related needs as vision care and dental care. The union also provides otherwise unobtainable access to disability insurance.

In the state of New York, the Freelancers Union even set up its own insurance company last January, drawing on $17 million of grants and loans from a coalition of businesses and philanthropies. Individual costs for insurance range from $140 to $350 per month, depending on the size of the deductible. In comparison, average monthly premiums for other self-insured New Yorkers are in the $800-$1,000 range.

The organization also unveiled a nationwide 401(k) retirement plan for its members in April 2009. Milliman Inc. serves as the plan administrator; Charles Schwab Trust Company serves as the trustee. Members enrolled in the plan can elect to invest in 12 professionally vetted and monitored funds or target-date funds. To promote regular savings, the plan also offers automatic withdrawals from freelancers' checking accounts. There is no minimum investment, and the monthly $11 fee will go down as more members join. Further, union members can adjust their contributions for free to accommodate the feast-or-famine cash flows that independent workers often experience.

Although the Freelancers Union's "goals and intent are profoundly the same" as those of traditional unions, "our business and organizing models are profoundly different," says Horowitz. For instance, unlike most U.S. unions, which support themselves by collecting membership dues, the business-minded Freelancers Union earns revenues by charging fees for its many services. The organization then reinvests all its earnings into new initiatives, education, and advocacy.

This year, the Freelancers Union expects that its revenues will exceed $75 million. The nonprofit has been sustainable since 2006, meaning that its revenue-generating activities cover the costs of its mission-centered projects. Still, the organization seeks grants for the start-up costs of some new initiatives. "We've created a hybrid ecosystem," Horowitz says.

THE FREELANCE FUTURE

Also unlike traditional unions, the Freelancers Union does not negotiate salaries or organize strikes. It does, however, work with politicians to win better protections for free agents. A recent advocacy triumph for the Freelancers Union came on March 23, 2009, when New York City Mayor Michael Bloomberg announced that he would seek a new federal unemployment benefit for freelancers, who make up 15 percent of New York City's workforce. The Freelancers Union designed the proposed Unemployment Protection Fund, which would require the federal or state governments to match $300 for every $1,000 a Freelancers Union member voluntarily pays into a designated fund. Members could draw upon these funds to pay for college tuition, housing, education, or other needs in case of unemployment.

"Freelancers lack any safety net to fall back on during hard times," Bloomberg said in a speech to the Economic Club of New York. "If a company lays you off, you can collect unemployment. But if you're a freelancer and you lose all your clients, good luck."

Horowitz's organization is improving upon old union models by exploiting the power of the Internet. The Freelancers Union provides an online portal of benefits and unites individual members within and across geographies. Through the organization's Web site, workers can find copywriters, legal advisors, and babysitters in their extended community, creating even more opportunities to meet clients and make money. They can also orchestrate online and offline meetings. Niche communities within the network unite to discuss such topics as mental health, insurance premiums, taxation policy, and résumé writing. The union's online presence also allows its members to advocate on their own behalf by signing petitions, organizing political events, and joining together to meet politicians.

Next up for the Freelancers Union is an online credit union where freelancers can save money as well as receive loans, says Horowitz. "We are also going to start really engaging in the policy debate," she says. "Washington, D.C., is the city of 'can't-do-ism' but we have built a 'can-do' model and an institution that reflects that perspective." In addition, the organization aims to build "real roots" in five cities, establishing bases of support for members as it has in New York City.

"Freelancers need a creative organization to help them develop good benefits, stability of employment, and job security," says Lawrence Mishel, president of the Economic Policy Institute, a think tank based in Washington, D.C. "The Freelancers Union has had some success, and I would expect to see more." ■

Calvin Chin, founder and CEO of Qifang, didn't want to "exploit China by riding the gravy train."

PHOTOGRAPH COURTESY OF THE WORLD ECONOMIC FORUM

Funding the Future in China

Qifang, an online peer-to-peer lending platform, expands access to education for the world's largest student population

By Suzie Boss

Growing up in a small farming village in rural Jiangxi Province, Liao Zhicheng dreamed of becoming China's "outstanding entrepreneur" so he could "change the fate of the poor family," he writes on a Web site. His rags-to-riches hopes started to come true when he enrolled at the Finance and Economic Vocational College of Jiangxi and earned top academic honors, including a national scholarship to supplement family support. His father encouraged him to use the extra funds "to eat a little better."

But when his father fell ill, the family budget got even tighter. Liao, 21, realized he needed to borrow 6,000 yuan (about $875) to make ends meet. A small loan would mean the difference between staying in school and going back to the village. Pondering how far he might go with a little help, he remembered a Chinese saying: "Give me a drip, I'll return you the wellspring."

Liao's saga—and his earnest promises to study hard, make prompt repayments, and bring honor to his ancestors—has convinced 18 Chinese lenders to pool their money and invest in his future. Their goodwill comes with terms: 8 percent annual interest and regular payments spread over 13 months, all tracked on a Web site.

Liao and his financiers came together via a peer-to-peer lending start-up called Qifang. Launched in Shanghai by American-born entrepreneur Calvin Chin, Qifang combines familiar elements of Web-based social networking and microlending. Although it runs on a Web 2.0 platform, the site speaks to traditional Chinese values. Qifang translates as "to bloom," riffing on Chairman Mao's call to "let a hundred flowers bloom." According to Chin, Qifang's CEO, the company's goal is to "do something that's good for China but with a very pragmatic business angle."

For the 25 million Chinese currently in college, and for twice as many who cannot afford to attend, Qifang offers a new way to fund the future. So far, 2,500 students have become borrowers through the social enterprise, with loans totaling about $1 million. But the untapped student loan market is in the billions of dollars. Higher education currently reaches less than 20 percent of Chinese youth, compared with nearly 50 percent in the United States and Japan. Recognizing the potential social benefits of expanding access to college for China's young adults, the World Economic Forum named Qifang one of its Technology Pioneers for 2009—the first made-in-China enterprise to earn that distinction.

Bringing It Home

Chin knows firsthand about the transformative power of student loans. The son of Chinese-American restaurant owners in Michigan, he tapped student loans first to attend Yale University, and later to pay for an MBA through a global executive program called TRIUM, jointly offered by New York University, the London School of Economics, and HEC Paris. "If I hadn't had the ability to borrow from the U.S. government," he says, "I wouldn't have been able to attend."

Before starting Qifang, Chin, now 35, taught middle school algebra in Brooklyn, N.Y., worked in finance on Wall Street, and then labored in technology start-ups in Silicon Valley. In 2004, he moved to China to join a semiconductor business, where he wrote business plans and wooed investors. Eventually, Chin began comparing notes with two friends who had followed similar paths from West to East.

"We're all Chinese, but we were born or raised overseas. We didn't want to come back and exploit China by riding the gravy train," Chin says. "How could we contribute to China's sustainable and equitable growth?" Inspired by microlending pioneer Muhammad Yunus and

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the concept of social ventures, Chin and his friends started looking for ways to combine their business acumen with their shared desire "to do something we would care about deeply. How could we take the profit motive to drive social change?"

It wasn't long before they hit on the idea of creating a new financial product that would expand access to higher education. Cofounders Tim Chen and Jake Hsu came on as board members and investors when privately held Qifang launched in 2007.

EXTEND MICROLENDING

Tailor products to cultural values and practices

Work closely with regulators

Educate new borrowers

Appeal to both profit and philanthropic motives

FINE-TUNING THE MODEL

The founders initially envisioned Qifang as a sustainable nonprofit, only to discover that Chinese regulations make it more difficult to start a nonprofit than a for-profit business. What's more, government officials seemed intrigued by the notion of for-profit, peer-to-peer lending. "They are encouraging us to experiment and see what's going to work," Chin says, "and work with them as the regulatory picture becomes more clear."

Qifang's business model stands on three legs: philosophy, product, and market. Philosophy is the company's social mission, which Chin sums up as "getting everyone a way to pay for their education."

When it comes to delivering a good product, Qifang borrows ideas that have worked elsewhere. Kiva, the popular microlending site, is an obvious source of inspiration. (For a case study about Kiva, see the summer 2009 issue of the *Stanford Social Innovation Review*.) Qifang's Web site has a Kiva-like flavor, with would-be borrowers telling their stories to potential lenders about why they need loans and what makes them creditworthy.

Another source of ideas is Prosper, a pioneer in peer-to-peer lending for consumer loans. Prosper's online auctions have raised $178 million for U.S. borrowers since 2006.

Qifang has had to modify these models to work in China, which lacks infrastructure for servicing loans and tracking consumer credit histories. "We have to do all the credit servicing that a bank or lending institution would do," Chin explains. Qifang makes tuition payments directly to schools that have signed on as partners. "It's great to have product inspiration," he adds, "but we realized early on that we're going to have to tweak any model pretty significantly to make it work in China."

And as for its market, Qifang has a ready pool of potential customers, with 6 million new students starting postsecondary studies each year. The Chinese cultural emphasis on education is also in Qifang's favor. "Urban families spend more of their money on education than on anything except food," Chin notes.

Despite massive expansion of higher education in China since 1999, government subsidies reach only about 10 percent of students, primarily from the poorest and most rural regions. An international panel of economists last year cited "difficulties in implementation" of existing student loan programs. "Chinese banks have been reluctant to lend money to poor students, and often ask them to return the loan before they graduate," explained authors in a 2008 *National Bureau of Economic Research* study. Without formal lenders, Chinese students have traditionally turned to informal networks, borrowing from extended family, friends, or even loan sharks. The current situation leaves many families footing tuition bills that range from $400 to $2,000 annually. "At the end of the day," Chin says, "the family has a tremendous burden to pay."

A TWIST ON TRADITIONS

To convince millions of underbanked consumers to take advantage of its product, Qifang must create new traditions. "The Chinese concept of 'face' can make it hard for people to ask [strangers] for help," Chin admits. "But we think it's easier to swallow your pride if you know you can transform your life."

That same pride mitigates risks to lenders. In their online profiles, students disclose family name, college, and hometown. "Borrowers don't want to embarrass their school, family, or people from home," Chin says. Posting a photo along with their loan request means borrowers literally put their face on the line.

As Qifang opens the credit spigot for first-time borrowers, it is mindful about its own responsibilities. To avoid sticker shock, the company encourages students to begin making small payments while they are still enrolled. Students also learn about financial literacy and career planning.

The prospect of earning social benefits along with interest especially appeals to lenders motivated by corporate social responsibility. The Taiwan-based semiconductor company VIA Technologies Inc. encourages its employees to become not only lenders on the Qifang platform but also mentors to student borrowers from a rural region of western China. "Qifang will enable our staff to engage in the lives of the students and help them through this critical time in their lives," says Richard Brown, vice president of marketing for VIA.

Lenders in tune with Qifang's mission seem willing to accept below-average interest rates, which range from 5 percent to 10 percent. Given the risks associated with first-time borrowers with no credit histories, Chin estimates the market rate "should be around 10 percent to 12 percent. Students are getting a philanthropic discount."

EXPERIMENT, ADJUST, SCALE

So far, Qifang can boast zero loan defaults. That perfect record could change when loans actually start coming due, Chin acknowledges. The company "is still in a learning mode," he adds. Early adopters tend to be those who are already tech savvy, such as bloggers and computer students. Reaching the less technically fluent may require offline outreach, such as storefronts or campus lending clubs. A mobile version of Qifang is in the planning stages to reach the millions who don't have ready computer access but do have cell phones.

The biggest short-term challenge for Qifang may be staying focused on its mission. The young company's early success has brought interested partners to its door, eager to offer other products to the same customer base that Qifang is building. "Do we want to offer student credit cards? Other interesting financial products?" Chin muses. The trick will be "remembering who our customers are," he says, "and knowing when to say no." ■

The Answer Is on the Ground

How the Positive Deviance Initiative helps communities solve their own problems

By Adrienne Day

David Hares is a popular guy on the sixth floor of the Albert Einstein Medical Center in Philadelphia. Nurses, housekeepers, and hospital administrators smile and greet him as he walks down the corridor, some reaching out with an affectionate squeeze. At the end of a hall, Hares tries to exit though a locked door, and a nurse tsk-tsks him as he playfully jiggles the handle. "You gotta wait till I buzz you!" she says, and grins as she waves him through.

However light the mood at Einstein today, Hares has a serious job. As the hospital's quality manager, he is responsible for making good medical practices cost-efficient. In this era of drastic budget cuts and bleak fiscal forecasts, this is no easy task. Yet Hares and his colleagues have experienced extraordinary success combating one of the most intractable problems facing modern health care: the Methicillin-resistant Staphylococcus aureus (MRSA), an antibiotic-resistant "superbug."

MRSA clings to anything it touches—hands, gloves, doorknobs, pens, dining ware, shoes, and so on. To make matters worse, the bacteria can lie inert on surfaces for weeks without a human host. And then an innocent sweep of a mop can send the pathogen along its infectious journey. In 2005, MRSA caused an estimated 94,000 infections and 18,650 deaths in the United States, report researchers in *The Journal of the American Medical Association*. That's more deaths than HIV/AIDS caused nationwide in the same year.

And although MRSA is not relegated to hospitals alone—it can be found in jails, schools, gyms, and anywhere else that people congregate—patients with compromised immune systems are at a much greater risk of infection. Hence the conundrum of the modern hospital: how to heal people without introducing new bugs that might very well kill them.

Einstein hired Hares as it was trying out a new method for tackling MRSA. Called positive deviance (or PD), the method is a problem-solving approach for difficult, systemic challenges—especially when top-down, expert-vetted approaches have failed.

"The premise is simple," says Jon Lloyd, a retired vascular surgeon who uses PD to combat MRSA in hospitals. "The solutions to seemingly impossible problems already exist in the communities that are facing those problems." Commonly referred to as the "anti-consultant" method, PD helps the people closest to the problem discover their own ways of solving it, instead of sending outsiders to tell the insiders what to do. PD practitioners usually look for outliers, or "positive deviants," who buck the odds and fare better than others in the community. "With PD, instead of looking for things that aren't working, you start from the solution," says Hares.

To learn PD techniques, Hares first had phone trainings with PD coaches every week. He then invited all employees at Einstein—doctors, nurses, housekeepers, chaplains—to voluntary weekly meetings, where he facilitated an equal exchange between people, no matter their rank. The meetings had only two rules: no talking about people who were not present, and everyone is welcome to speak. In this way, the meetings gradually shifted the top-down hierarchical culture of the hospital to one that was more open. As a result, nurses felt free to remind doctors to wash their hands, and housekeepers felt empowered to share their secrets for staying clean and healthy.

Jerry Sternin, the "Father of Positive Deviance," helps Vietnamese families learn better nutrition from each other.

Photograph courtesy of the Positive Deviance Initiative

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Since PD came to Einstein in 2006, MRSA infection rates have dropped more than 32 percent. "We didn't change the science," says Hares. "We implemented things that were already proven"—hand hygiene, consistent use of gloves and gowns, clear signage for infected patients—"and changed the behavior attached to the science."

The Albert Einstein Medical Center is not the only organization to benefit from PD. For nearly two decades, PD has helped hundreds of communities in dozens of countries harness on-the-ground genius to solve their own problems. PD has been instrumental in tackling such disparate problems as female genital cutting in Egypt and student under-performance in New Jersey schools.

To amplify the impact of PD worldwide, proponents of the method founded the Positive Deviance Initiative (PDI) in 2008 at Tufts University Friedman School of Nutrition Science and Policy in Boston. With a $3 million grant from the Rockefeller Foundation, the organization is now taking PD to scale. Although still a small operation, PDI already has a long list of successes to its credit.

LEVERAGE LOCAL GENIUS

Look within communities for solutions

Flatten hierarchies to encourage discussion

Let clients define their own goals and methods

ESCAPE FROM THE IVORY TOWER

In the late 1980s, Marian Zeitlin, a professor of nutrition at Tufts University, coined the term "positive deviance." She was conducting research on why some children fared better than others in communities with rampant malnutrition. But it wasn't until Monique and Jerry Sternin, a husband-and-wife team working for the nonprofit Save the Children, were given the task of alleviating malnutrition in Vietnamese children that PD escaped the confines of academe.

When the Sternins visited Vietnam in 1990, more than 65 percent of the children under the age of 3 were malnourished. According to Monique, the Vietnamese government told the Sternins that they had six months to show impact or their visas would not be renewed. "We had an interpreter and a black Volga car, that was it," recalls Monique, an anthropologist who is now director of PDI. (Jerry Sternin died in December 2008 after a short battle with cancer.) Faced with a seemingly insurmountable task, the Sternins, who had been following Zeitlin's work, decided to experiment with PD in the field.

They started small, in four villages, using three basic principles: 1) The community itself needs to discover what works for it ("That's why the immune system of the community doesn't reject it," says Sternin.); 2) everybody is invited to participate (When everyone brings a voice to the table, says Sternin, "they have ownership [of the ideas] from day one."); and 3) the community develops its own monitoring and evaluation tools, which work best because they are tailored to the community's particular needs.

In the case of the Vietnam nutrition project, the Sternins first helped the villagers establish their own standards for what counts as "well nourished" by training health volunteers to weigh children and evaluate their nutritional status on a UNICEF growth chart. They then helped the villagers discover that families with well-nourished children were feeding them tiny shrimp and crabs collected from rice paddies, along with sweet potato greens—foods that local wisdom maintained were unhealthy for children. These families were also feeding their children many small meals a day, as opposed to the traditional two meals per day.

The real challenge, however, was to help parents of malnourished children sustain the healthy weight-gaining practices; good changes often revert to the status quo after the experts leave. So the Sternins invited the parents of malnourished children to prepare and eat meals with the parents of the well-nourished children. After a few weeks of this practice, the new cooking and feeding habits took hold in many families. For those families whose children did not gain enough weight, the Sternins invited them to participate in the communal meal preparation program again.

After six months, observers determined that more than 40 percent of the children were well nourished, and that another 20 percent had moved from severe to moderate malnutrition. The government then spread the program throughout the country (and renewed the Sternins' visas). Since that time, the program has had a direct impact on the lives of 2.2 million people in Vietnam.

LET THE MICE ROAR

Upon returning to the United States in 2001, the Sternins set up camp at Tufts University, where they slowly expanded the scope of their program. Both Monique and Jerry Sternin, the respected and beloved "Father of Positive Deviance," were personally involved in training the many people they reached over the years.

Now, PDI employs experienced coaches who train people to execute PD within their organizations. A typical nine-month PD course involves three face-to-face trainings for three days each, phone coaching once a week for six weeks, and then one phone check-in every month after that. Thousands of people have been trained in PD all over the world more or less in this fashion. But because PDI is a new organization, it is much smaller than the scope of its influence would suggest: It currently has only four full-time staffers, and the lion's share of its budget comes from grants.

PD has since racked up enough successes to attract the interest of prominent philanthropic organizations like the Rockefeller Foundation. "[PD] doesn't work in every situation, but I think it is an important tool," says Maria Blair, associate vice president of the Rockefeller Foundation. "Creating effective and efficient solutions to social problems requires a toolbox of approaches and methods."

Back at Einstein, signs of PD in action are everywhere. Many rooms have supply racks stocked with gloves, gowns, and masks by the door. Hand cleanser is abundant: Hares squirts some into one hand and rubs it under his fingernails, demonstrating the proper technique for hand sanitization. Patricia Cooper, a housekeeper, pushes by with a large cleaning supply cart. "I clean this whole floor, and I'm always telling people to wash their hands, flush the toilet, things like that," she says. "Doctors have a lot on their minds, and they might just walk out and forget something." She laughs, adding, "They call me 'the tyrant,' and that's okay with me!" ■

Behind the Curve

Corrupt governments cash in on the Millennium Challenge Corporation's outdated metrics

By J. Peter Pham

President Abdoulaye Wade of Senegal—an MCC grantee—and his son Karim have been accused of corruption.

PHOTOGRAPH BY SEYLLOU/AFP/GETTY IMAGES

In 2004, the US. government-backed Millennium Challenge Corporation (MCC) certified the West African nation of Senegal as eligible to receive hundreds of millions of dollars in foreign aid. Initially, Senegal seemed like an excellent choice for a grant from the MCC, which targets aid to poor countries that are committed to good governance, free markets, and investments in people. Senegal is one of the few African states that has never had a coup d'état. And since the nation became independent from France in 1960, Senegal's leaders have peacefully transferred power two times—most recently in 2000, when citizens elected the current president, Abdoulaye Wade. In addition, the country has encouraged private sector-led development and has at least officially welcomed foreign companies.

Since Wade's election, however, Senegal's enthusiasm for economic freedom, poverty reduction, and sustainable growth seems to have flagged. For instance, after giving the French and Canadian consortium Hydro Québec International-Elyo a 34 percent stake in SENELEC, Senegal's monopoly electricity supplier, the Senegalese government would not allow the company to recoup its investment by raising prices. Frustrated in their attempts to turn a profit and to modernize the ramshackle power system, the investors were forced to accept a government buyout after less than 18 months.

Likewise, Luxembourg-based Millicom International Cellular has encountered problems with the Wade administration. Since receiving a 20-year license in 1998, Millicom, whose local subsidiary operates under the Tigo brand, has invested heavily in the Senegalese market (more than $90 million in 2008 alone) to grow a nationwide network of 1.8 million loyal subscribers—one-sixth of Senegal's population. Since Wade took office, however, the government has tried to pressure Millicom into renegotiating its license and paying an additional $200 million. In September 2008, the government issued a decree that purported to terminate Millicom's license and seize its holdings. The company is currently seeking arbitration through the World Bank's International Centre for Settlement of Investment Disputes (ICSID). Subsequently, the Senegalese government has threatened to charge the firm's general manager with illegal gambling because of a Tigo sales promotion that awarded prizes (such as a goat) to participating customers.

Senegal's commitment to good governance is also waning, with the Wade government following an all-too-familiar pattern of seeking to perpetuate itself indefinitely. Wade initially promised to serve only one seven-year term, but in 2007 he was reelected to a second five-year term. And since Wade came to power, some elections have been delayed up to one year. Meanwhile, in June, the Senegalese parliament created a presidentially appointed vice president post, which many speculate will go to the president's son, Karim. In his previous government posts, including oversight of the 2008 Organization of the Islamic Conference summit in Dakar, Karim Wade was criticized for cost overruns and accused of corruption.

Despite its departures from the MCC's selection criteria, Senegal is on track to receive major funding from the organization. In April 2009, the MCC even gave the Senegalese government a $13.39 million grant to help the latter get ready to sign a "compact," as the

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agency calls its multiyear funding agreements. The compact, which the MCC lists as its leading priority, would pour hundreds of millions into infrastructure projects—which Karim Wade would direct.

Although it is possible that the MCC's local administrators in Senegal are corrupt, a better explanation for the MCC's misguided investments is that bureaucrats in Washington are relying on out-of-date, inaccurate, third-party information. In turn, aid recipients, as rational economic actors, sense the weaknesses in MCC's selection and monitoring processes and then exploit them to their own advantage. This is happening not only in Senegal, but also in other countries eligible for MCC compacts. For example, after Mongolia received a five-year, $285 million grant in 2007, it turned against private investors, slapping a staggering 68 percent "windfall profits" tax on holders of copper- and gold-mining licenses. Yet Mongolia's decidedly antidevelopment actions did not affect its MCC funding.

If the granting of hundreds of millions of dollars to countries like Senegal is any indication, the MCC has a long way to go before it will truly revolutionize foreign aid.

For the MCC to achieve its mission of reducing global poverty through sustainable economic growth, it needs to consider its data more critically. It also needs more timely assessments of grantees.

FAITH-BASED SCIENCE

Established in 2004, the MCC is arguably one of the most significant foreign policy legacies of George W. Bush's presidency. The MCC uses 17 third-party-generated policy indicators to select recipient nations for large, multiyear, flexible grants, called Millennium Challenge Compacts. These compacts allow recipients to define their greatest obstacles to sustainable development, and then to determine how to overcome these obstacles. Twenty of the 39 countries that are eligible for MCC funding are in Africa, and more than three-quarters of the funding committed so far has been destined for the continent.

Although initiated by a Republican administration, the MCC continues to enjoy broad bipartisan support. President Barack Obama himself requested an almost two-thirds increase in funding for the MCC for 2010, raising its budget to $1.43 billion.

Yet the very reason for the MCC's popularity—the program's use of "objective" selection criteria—actually undermines its broader goals. To shield its decision-making process from undue politicization, the MCC relies on third parties to generate the data it uses to select grantees. To assess countries' regard for civil liberties and human rights, for instance, the MCC consults Washington, D.C.-based Freedom House scores. Using a 1 to 7 scale (on which 1 is the highest rating and 7 is the lowest), the 2008 edition of Freedom House's *Freedom in the World* report gives Senegal a rating of 2 on political freedom and a 3 on civil liberties. These ratings designate Senegal a "free country"—one of fewer than a dozen African states.

These third parties, however, take a long time to gather and analyze their data. The most recent Freedom House scores, for example, come from the group's 2008 report, which is based on observations from the first part of 2007. By the time the MCC uses the third-party indicators to make decisions, some of the inputs are several years old and may no longer represent the facts on the ground.

Potential aid recipients seem to be aware of this loophole and time their backsliding accordingly. In the case of Senegal, the current MCC scorecard does not capture the country's increasingly unfriendly investment climate or the Wades' tightening grip on power, both of which will impact the country's economic prospects. Yet the U.S. State Department's most recent annual report on investment climate—a more subjective document—warns that "potential investors, and indeed all businesses, face obstacles, including non-transparent regulation and high factor costs" and that "court rulings can be inconsistent, arbitrary, and non-transparent."

In short, although the use of third-party indicators reassures observers that the MCC is practicing "smart aid," appearances can be deceiving. The notion that numerical indicators are more scientific than qualitative analysis is based more on conceit than on evidence.

BETTER AID TO AFRICA

Over the past 50 years, Africa has received more than $1 trillion in foreign assistance. After subtracting the $400 billion that these countries have paid back, the continent has received a net transfer of more than $600 billion. Yet donors and recipients have little to show for this unprecedented redistribution of wealth. Although a few African countries have recorded impressive economic growth in recent years, per capita income across the continent remains essentially where it was in 1960. In 2008, all 22 countries that the United Nations Development Programme (UNDP) characterized as having "low human development" were in sub-Saharan Africa.

This failure of foreign aid suggests that simply increasing assistance levels will not necessarily buy more development. Indeed, my conclusion is quite the opposite: Unless aid carefully avoids reinforcing flawed policies, supporting poor governance, weakening African institutions, and creating dependence, it will actually buy less development. I am not alone in this conclusion; New York University economics professor William Easterly and former World Bank consultant Dambisa Moyo have also indicted foreign aid. (For a review of Moyo's *Dead Aid*, see the summer 2009 issue of the *Stanford Social Innovation Review*.) Likewise, as Rwandan President Paul Kagame declared in the *Financial Times* this year, "The cycle of aid and poverty is durable: As long as poor countries are focused on receiving aid they will not work to improve their economies."

Yet many other African leaders are still willing to play on donors' lingering colonial guilt. And despite widespread criticisms of current practices, donor countries are unlikely to scale back their assistance anytime soon. If no one turns off the spigots of foreign aid, then donors must at least make aid more effective by adopting more strategic approaches. The MCC is a valiant attempt at this. But if the granting of hundreds of millions of dollars to countries like Senegal is any indication, it has a long way to go before it will truly revolutionize foreign assistance. Decisions about aid need to be not only well intentioned, but also well researched and well timed. ■

A Fine Green Niche

Maria Yee established her eco-friendly, high-end furniture company long before going green was the done thing. Two decades later, her company's environmentally sound practices not only reflect a planet-friendly ethos, but also drive a market-friendly creative edge. Here's how and why Yee stays green in a brown industry. By Maria Shao

Growing up in Guangzhou, China, in the 1950s and 1960s, Maria Yee dreamed of being a physicist. At the same time, her father, a professor of architecture, inspired in her a lifelong interest in design. But when China's Cultural Revolution scattered Maria's family across prisons, mines, and farms and sent her to labor in a rock quarry, neither physics nor design seemed to be in her future. She eventually wound up working in a machinery factory while studying mechanical engineering at night school.

Years later, however, Yee immigrated to California. There, she combined her knowledge of engineering with her early interest in design to establish Maria Yee Inc. (MYI), an ecologically friendly luxury furniture company based in Santa Cruz, Calif., that uses traditional Chinese joinery techniques in unique home furnishings. Since its founding in 1988, MYI has become a $30 million-a-year business that distributes its goods through retailers such as Crate & Barrel, Room & Board, and Best Buy's Magnolia Home Theater. The company also owns its two factories in China—a rarity in the furniture world and a source of competitive advantage for the company.

MYI has also earned a reputation as a leader in green furniture manufacturing. The company uses hardwoods that are certified by the Forest Stewardship Council (FSC), an international nonprofit organization that promotes sustainable management of the world's forests. MYI has established itself as an innovator by developing sophisticated techniques for building furniture out of bamboo—a widespread and rapidly renewable resource. And to preserve water, air, and other precious resources, the company also uses less toxic finishes, vegetable-tanned leather (as opposed to leathers tanned with compounds using heavy metals), and energy-efficient manufacturing practices. In 2006, the company introduced the term EcoLuxury to describe its product line. Not just a marketing theme, EcoLuxury commits the company to creating high-quality furniture with minimal toll on the environment.

"I'm a human, I want to take every small step to protect the environment," explains Yee. "We take from the Earth, and we should give back to the Earth."

Giving back to the Earth has sometimes proven difficult, however. Building green usually costs more than building brown, potentially putting MYI at a price disadvantage. And because the market for "eco-furniture" is in its infancy, many consumers are not willing to pay a premium for environmental benefits. Meanwhile, the company must also cultivate and maintain a reliable green supply chain for its wood, bamboo, finishes, and other materials—a feat that costs both time and money.

Yee acknowledges that being green does not make the business more profitable in the short run. "It does not increase profits at all. It requires more investment up front," she says.

Yet she also believes that green habits will reap long-term rewards. Eco-friendly practices such as reusing wood remnants and saving energy in manufacturing are sound money savers. Using bamboo as a replacement for fast-disappearing hardwoods has pushed the company to pioneer new materials and furniture-making techniques. These innovations give the company a subtle marketing edge among the eco-conscious, upper-middle-income consumers who buy its furniture. Together, the company's green practices and design innovations have helped it carve its niche as a forward-looking furniture manufacturer.

As the public becomes more aware of global warming, habitat degradation, and other environmental problems, Yee hopes that her company will be positioned ahead of the competition. She anticipates that future generations will "embrace green without even having to think about it," and that the price of being green will become "just another cost of doing business."

Maria Yee's products reflect her engineering acumen, green ethos, and expertise in classical Chinese design.

PHOTOGRAPH COURTESY OF MARIA YEE INC.

MADE IN CHINA

Yee moved to the Santa Cruz area in 1988 to join her husband, Peter, who had worked in Silicon Valley's disk drive industry. Turning a hobby into a business while raising a family, she founded her namesake company that year in the basement of her parents-in-law's San Francisco home. Peter became half-owner and CEO of the business, while Maria owns the other half of

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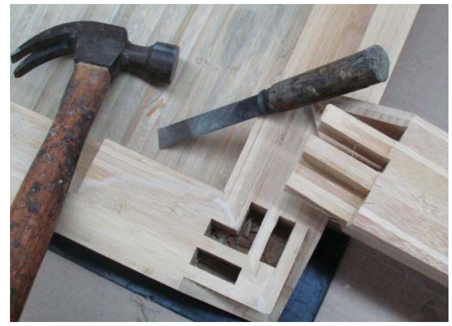
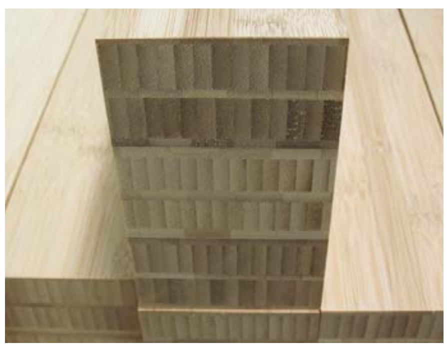


In addition to its eco-friendliness, Maria Yee Inc. furniture features innovative materials like patent-pending BambooTimbre, as well as exclusive techniques like traditional Chinese joinery, which uses neither nails nor screws.



PHOTOGRAPHS COURTESY OF MARIA YEE INC.

the company and serves as its president.

Soon after, Yee visited a buyer at Gump's San Francisco, a retailer of high-end home furnishings. After she described her Ming-style designs and hand-joinery techniques—which do not use screws or nails—and showed the buyer a sample horseshoe armchair, he immediately became her first customer. By the late 1990s, MYI had developed an array of furniture collections, typically consisting of Asian-inspired pieces—including dining tables, beds, dressers, armchairs—that also evoked what the company called "California contemporary," a style that was simple and minimalist.

From the start, Yee produced her furniture in China. In the early years, she employed craftsmen in a Beijing workshop. Later, she began mass production in China, where she could find workers experienced in traditional Chinese joinery techniques. The business also benefited from China's low labor costs. (Although MYI's workers earn more than those at other Chinese furniture plants, their wages are roughly one-tenth those of U.S. furniture production workers.)

In 1999, the company leased a furniture assembly plant in Yee's hometown of Guangzhou. After building its own Guangzhou factory in 2004, the company established a second furniture factory in the bamboo-rich north of Hunan Province in 2007. As of mid-2009, MYI employed 580 workers in China.

Unlike many U.S. furniture makers, the Yees decided to own their factories. Having worked in the technology industry, the couple understood the importance of high-quality offshore manufacturing. "From day one," says Yee, "we had a totally different business model from other furniture manufacturers." Although many U.S. furniture companies turn to offshore contractors and deal with them through middlemen, the Yees have far greater control over the quality, costs, and schedules of their manufacturing.

Direct control over manufacturing has proven critical to MYI's success with retailers. Room & Board, a Minneapolis-based furniture retailer with 10 stores nationwide, had a long-standing policy of buying domestically to ensure premium quality. But it started buying MYI's made-in-China furniture in 1996. The Yees' ownership of manufacturing was "a very big factor" in the purchasing decision and ongoing relationship, says Gene Wilson, Room & Board's director of vendor management. "I don't even think of it as buying an import."

The Yees' ownership of their factories in China has also helped the company tread more lightly on the environment. Because MYI makes all its furniture in its own factories, it can more closely monitor the origins and features of its materials and products.

GREEN YEE

Taking care of the environment has long been a fundamental concern for the Yees. From its founding, MYI adopted green practices at most stages of furniture production—sometimes on purpose, sometimes by accident. In her earliest pieces, for example, Yee used reclaimed wood because it resembled the materials in the original Chinese designs that inspired her work. Yee herself combed through the remains of houses, temples, and other buildings that had been torn down during the Cultural Revolution, salvaging the wood and transporting it by donkey and train.

Among furniture makers, MYI was one of the first to recognize the importance of preserving the world's rapidly dwindling forests. Early on, the company started using hardwood that had been harvested from environmentally responsible plantations. Around 2002, at Peter's urging, the company began to look at bamboo as an alternative to hardwood because bamboo renews quickly. In 2005, it introduced BambooTimbre, a material that Yee developed by flattening, layering, and bonding thin bamboo strips into solid boards. The patent for BambooTimbre is pending.

To manufacture furniture in its Chinese factories, the company has had to develop and maintain a green supply network for wood, bamboo, glues, and finishes. This means buying from eco-friendly suppliers, as well as helping suppliers to become more environmentally responsible. Being green is particularly tricky in China, where the rapid march toward industrialization often leaves environmental practices lagging those of Western countries.

CASE STUDY QUESTIONS:

What does it take to make an eco-friendly luxury furniture company?

Why would a green company locate its operations in China?

How can green companies compete with their browner counterparts?

One struggle, for instance, is guaranteeing that MYI's hardwood and bamboo are grown and harvested responsibly. In 2003, the company started looking into FSC certification, the gold standard in the eco-certification of forestry products. For MYI, FSC certification has two parts: The wood must be sustainably grown and harvested, and the manufacturing processes must be ecologically responsible. The company won certification for its two factories in 2008, making them among the first Chinese furniture factories to gain FSC certification.

As MYI looks to buy FSC timbers and bamboo within China, however, the firm faces many hurdles. As of late 2008, there were fewer than 20 FSC-certified timber and bamboo suppliers in all of China, MYI officials estimate. Consequently, the company often has to purchase its certified wood and bamboo from distant provinces. By late 2008, the company had identified several nearby bamboo and hardwood suppliers and was trying to convince them to convert to FSC processes. It tried to provide incentives to suppliers by guaranteeing FSC purchase orders and offering financing, training, data management, and paperwork support. The company was exploring the possibility of forming an FSC cooperative with suppliers to share the costs of certification.

Even in the United States, MYI is among the first furniture manufacturers to sell FSC-certified products. It introduced its first FSC-certified line in 2008—a walnut collection for Crate & Barrel. By 2009, about 15 percent of MYI's walnut products were FSC certified. Meanwhile, Yee's desire to conserve hardwood forests inspired her to engineer BambooTimbre and to develop joinery techniques for the material. In addition to launching BambooTimbre, the company in 2008 introduced RidgeBamboo, a material with a ridged texture and variegated color patterns.

Today, MYI is aggressively shifting from hardwood to bamboo products. In 2007, 75 percent of its products were hardwood. This year, the mix will be 50-50. Bamboo trees require little cultivation in places such as Hunan's Taojiang County, where they grow unchecked on hillsides and amid rice fields. Traditionally, townspeople and villagers used bamboo to make low-value items such as chopsticks and mats. In contrast, MYI buys only the highest-quality bamboo—at least 7 millimeters thick and 4 years old. To secure quality bamboo, the company works closely with suppliers.

MYI has also had to develop a supply chain for eco-friendly finishes and glues. Traditionally, these materials contained substances such as lead and formaldehyde, which pose health risks to workers and consumers. Yee's company is a leader in the furniture industry in adopting less toxic materials., such as formaldehyde-free glues made in Finland and Japan.

Yee is in the process of switching from solvent-based lacquers to water-based finishes. To bring about this change, Yee pushed her U.S.-based supplier, Valspar Corp., to make water-based coatings available in China at the same price as nitrocellulose lacquer—the traditional, more toxic choice. In exchange, MYI agreed to let Valspar use its Hunan plant to test mass production methods for water-based finishes and to participate in Valspar's customer education seminars on green manufacturing in China..

MYI's eco-awareness extends to its manufacturing processes. Instead of using solid wood, it recycles wood remnants for interior drawer panels and back panels on furniture, thus conserving resources. Turning waste into heat, the two factories use sawdust to fuel their low-emission boilers. Expansive skylights reduce the plants' electricity needs. And the Hunan factory was the first industrial building in China, according to the company, to rely exclusively on energy-efficient hydronic heating, which involves circulating heated water in pipes under the floor.

KEEPING UP WITH THE BROWNS

The top challenge to carrying out this green strategy, however, is staying cost competitive. "Being green, you absolutely have higher costs," says Yee. For instance, FSC-certified wood might cost 10 percent more than uncertified wood, eco-certification in the furniture factory might add 10 percent to costs, and low-emitting glues might cost three times more than regular glue, company officials estimate.

The company strives to offset these additional expenses through improved efficiencies in design, manufacturing, and other processes, rather than passing along the costs in the form of higher prices. "We don't think green has to be premium priced," Yee adds.

Indeed, few consumers care enough about a product's greenness to pay extra for it, find numerous studies. For example, in a recent survey, the NPD Group, a Port Washington, N.Y.-based market research firm, found that although 64 percent of their American respondents believed in the importance of purchasing green products, only 38 percent were willing to pay more for them. Other studies similarly show that most consumers place a higher priority on products' quality and price than on their environmental soundness. (For example, see "Secret Agents," a profile of Method cleaning products, in the spring 2007 *Stanford Social Innovation Review*.)

Responding to consumers' preferences, furniture retailers tend not to tout the eco-features of their products. "We don't believe in calling out any specific product as being green," says Wilson. "We can tell the green story, but that's not the lead."

Instead, MYI and its distributors emphasize the design, craftsmanship, and durability of the company's furniture. They point out the exclusive joinery methods, BreathingJoinery and BambooJoinery, which took Yee many years to develop. Customers who care about the greenness of their goods can find out more by referring to product hang tags, pamphlets, videos, and other materials.

Retailers appreciate the quality and uniqueness of Yee's products. "There's a design reference that's authentic," says Marta Benson, Gump's CEO. "They're well engineered. They're nice quality. The joinery system that she innovated is brilliant."

"I haven't seen anybody approach her construction technique's quality," agrees Wilson. "She's a gifted engineer. [And] she has trained her staff to follow [her] techniques."

Maria Yee Inc. owns its two Chinese factories, where employees enjoy healthy wages, benefits, and work spaces.

PHOTOGRAPH COURTESY OF MARIA YEE INC.

MYI's greenness will not always be a silent feature, predicts Lora LaDew, product director for Crate & Barrel: "Green products are going to be extremely important. [Yee is] ahead of the market in terms of developing and embracing the certifiers, the initiatives, the materials. It will serve her well."

TREES OR PEOPLE?

Observers of the social responsibility movement increasingly worry that corporations are beefing up their green bona fides at the expense of their labor standards. Yet MYI has taken steps to protect not only the trees and bamboo growing around its factories, but also the people working in them. Although its production workers earn considerably less than their American counterparts, they earn more than Chinese national law requires and more than the typical wages at other furniture factories around Guangzhou, according to company officials. As of late 2008, the company's production workers in China earned an average of 1,676 yuan a month, equivalent to $246 a month, or $2,952 a year. (U.S. furniture production workers typically earn from $25,660 to $37,250 a year).

In addition, the company offers a range of benefits like insurance for retirement, unemployment, and disability, as well as a housing stipend (as government regulations require). Both the Guangzhou and Hunan facilities have dining halls, dormitories, and "Internet bars" for workers. Inside the factories, the company's growing use of eco-friendly glues and finishes is driven in part by its desire to protect the workers' health. And the factories are clean and bright, with sunshine and natural light streaming in through large windows and skylights.

Huang Yixiao, MYI's production manager in Hunan, says the company "is rather good on social responsibility." He has been promoted eight times since joining the company in 2000, and he estimates that as of November 2008, as many as 300 employees had been with the company since 1999, when it started manufacturing in China. Of Yee herself, he says, "The workers feel very close to her. "

Indeed, Yee strives to elevate the skills of her Chinese staff. She tries to develop local management talent and instill product development expertise. And she helps staff with design ideas, market knowledge, and insight into customers.

The company also improves the incomes and the standards of living of bamboo farmers. MYI initially lent its suppliers machines to cut and process bamboo logs into strips. Many of the farmers quickly prospered and bought their own machines. Ma Yong, the Communist Party secretary overseeing Taojiang County, notes that MYI occupies "a very good place" in the upgrading of the local bamboo industry. He also praises the company for its "American-style management model."

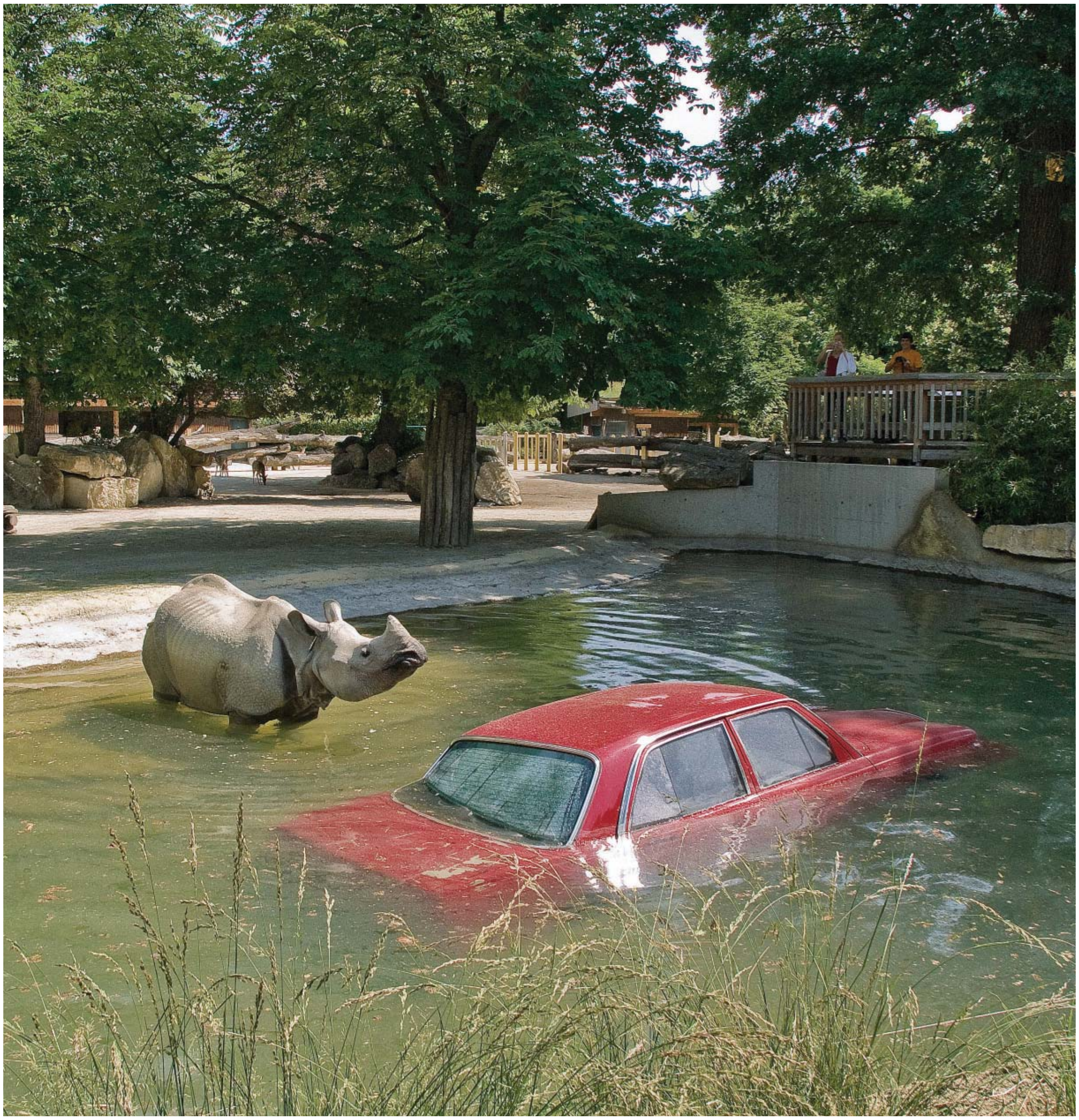
TRADITION FOR TOMORROW

MYI was green long before green was fashionable, and so for many years it has absorbed the extra costs of pioneering green initiatives. It has done so out of a sense of moral duty and a belief that its foresight will be worthwhile in the long run. It also holds that being green is not a goal unto itself, but part of the whole package of being an innovative and successful furniture maker.

But like many companies today, MYI is suffering the effects of the global economic slump. Yee expects 2009 sales to fall between 20 percent and 25 percent from $30 million in 2008—the first drop in the company's 21-year history. The company had 8 percent sales growth in 2008, which trails the double-digit gains it regularly posted throughout the 2000s. It has sharply downsized its operations and workforce in China—from 850 employees in late November 2008 to just 580 in mid-2009. It also has stepped up automation and combined operations in the two facilities to help weather the downturn.

As MYI awaits brighter economic times, it is determined to maintain its position as a leader in the furniture business. The company continues to work on innovations such as new bamboo-based materials and organic finishes. And it promises to roll out new products and lines that may be even more eco-friendly. Yee hopes the company will become a $200 million-a-year business someday, and so the company continues to develop new distribution channels, such as smaller, independent retailers, and new customers, such as hotels, that are interested in eco-friendly furniture.

The company recently added the tagline "tradition for tomorrow" to its EcoLuxury marketing slogan. So long as its tomorrows keep coming, Yee intends to keep honing her techniques as a maker of unique, high-quality, green home furnishings. ■



Trouble in Paradise

A WRECKED CAR FLOATS in the rhino habitat. Railroad tracks run through the bison pen. An oil derrick towers over the penguin pool. These striking juxtapositions are among the six “frictional spaces” that Austrian artists Christoph Steinbrener and Rainer Dempf produced for their *Trouble in Paradise* installation at Schönbrunn Zoo in Vienna.

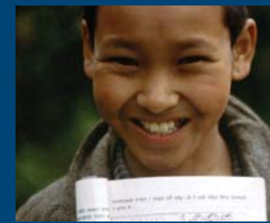
When invited to create the exhibit, Steinbrener and Dempf saw a prime opportunity to explore the complex relationships between the natural and the artificial. They crafted sculptures that ask, “What’s more authentic: the usual faux-natural zoo diorama, or habitats littered with man-made objects?” Their artworks also challenge viewers to contemplate humans’ impact on the environment.

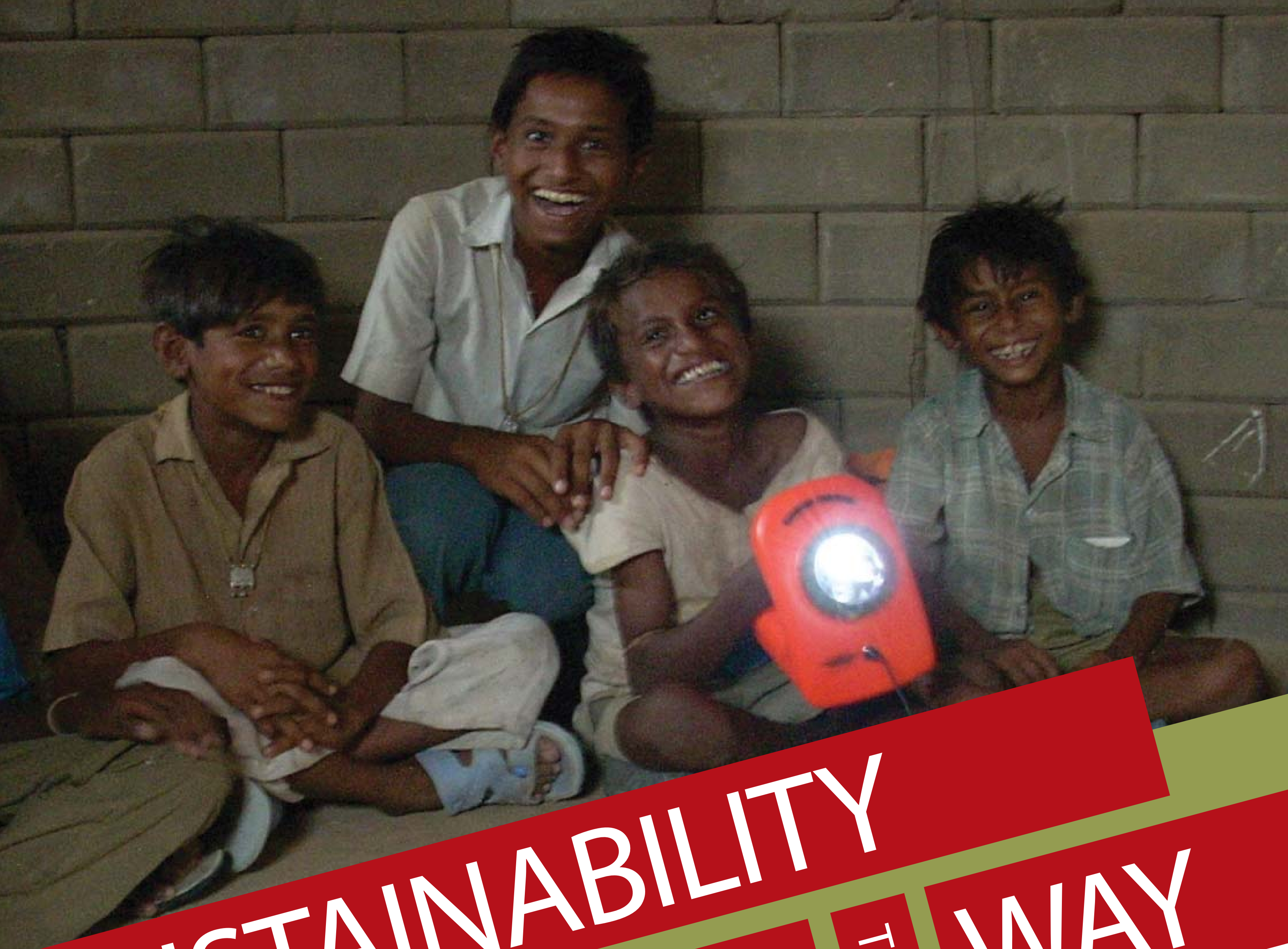
Trouble in Paradise is the latest addition to the artists’ eclectic portfolio, which includes transforming a historic church in Linz, Austria, into a Starbucks; selling tickets to the moon from a kiosk in a Vienna train station; and covering all of the commercial messages along a Vienna shopping avenue in bright yellow material. The works present “social circumstances distorted to the point of recognition,” Dempf wrote in an e-mail. And indeed, these riffs on mundane situations force viewers to contemplate their everyday realities.

Steinbrener and Dempf worked closely with zoo staff for more than a year to make the exhibit animal-safe. But once they finished the installation, they handed things over to the animals, whose interactions with the sculptures have entertained visitors ever since. “We don’t have a problem with this,” says Dempf. “The leading roles [were intended for] the animals—and visitors.”

—**JASON CHUA**

PHOTOGRAPH COURTESY OF STEINBRENER/DEMPF





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