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Steven McCormick, president of the Gordon and Betty Moore Foundation, discusses the value and continued need of an entrepreneurial approach in the philanthropic sector. McCormick also shares lessons learned on staying obsessively focused on outcomes, the critical need to measure success, and how to create change by being a 'positive deviant' inside organizations.



Transcript

Thank you very, very, very much.. I can tell you that if I was at Cal, and somebody try to do that with a Stanford, I won't get away with it.. So you're - you're much more polite audience than at Berkeley.. I very much appreciate the introduction, Tom, and really hope I can live up to it.. I am delighted to be with a group of people who are so interested in entrepreneurialism in its kind of broadest manifestation.. I have spent my whole career in the non-profit sector.. So I'm going to talk to you about what I think of as the application of being an entrepreneur in a non-profit setting and it's not easy.. As Tom said, I was at The Nature Conservancy as President for almost eight years.. Prior to that, I was working with The Nature Conservancy in California for 16 years.. So I spent most of my career in the non-profit sector at a more or less typical NGO, typical in the sense that it's dependent on private contributions, carries out a very focused mission and employs people who have a deep passionate interest in that mission and have an alignment around that..

I went to the Gordon and Betty Moore Foundation in 2008 - sorry, beginning of 2008.. And after having spent almost 30 years trying to raise money, going to foundation that has \$6 billion in assets, it was sort of like getting into the vault.. And I joked with people the first day I was there, so can I actually go look at the money? I mean, this is - is it going to be piled up somewhere? But it's a sort of commonplace outlook in the NGO community that nothing could be easier than working at a foundation.. It's very hard to raise money and how hard could it be to give money away.. There is some truth in that, but I'm going to share with you a lot of the lessons I learned about the difficulty of giving money away.. Although I will share with you an insight I had when I started there.. Because again, coming from an organization with a \$500 million operating budget at The Nature Conservancy and then a need to raise at least that much in capital contributions every year, because as many of you may know The Nature Conservancy buys land.. My biggest challenge, the thing that really kept me anxious was getting that money in every year, raising enough money.. And any non-profit leader will tell you that.. This is like just every year you're just fixated on getting enough money in..

So when I started the foundation and asked folks like what's - what causes anxiety here? What you kind of like really get worried about? And the response was, oh, man, at the end of the year, we've got to hit our 5% payout, that's not easy.. So what you're telling me is you're worried about getting money out the door? Yeah.. That's unbelievable.. That was a mindset that I hadn't anticipated and actually was an insight into some of the challenges, frankly, of running a big foundation.. So I'm going to share perspectives from both of those roles.. And some things are very similar and some things are very distinct, but I would say overall managing a big enterprise in the not-for-profit sector and the for-profit sector and the government sector has a lot of similarities and I believe that one of the most important characteristics of leadership in the non-profit sector is one of entrepreneurialism and I'll explain what I mean by that.. One of the biggest challenges in the non-profit world is understanding how well you're doing.. Going to for-profit, there are conventions consistently applied, universally understood, often legally required that enable leadership or anybody in a large enterprise or small enterprise for that matter to know how well they're doing, and typically those are financial metrics.. And a non-profit organization don't have any consistency in the metrics to determine success or progress towards a mission and frankly one of the biggest shortcomings of non-profit organizations is that they begin to think of success in terms of tactics and activities, not end results.. I have an almost obsessive focus on outcomes, and I always have..

I remember when I started The Nature Conservancy, which again has been characterized by - it's I think very successful tactic of buying land.. I started there as a lawyer.. And transactions were always in the pipeline, negotiated by very able field

representatives, typically who had a business degree, I started in 1977, it's 14 years old.. Just I was really - just more or less out of law school, but all these transactions, each one of which was a very fine consequence in its own right, I couldn't see how does it add up, how is this individual transaction contributing to some larger outcome inasmuch as the mission of The Nature Conservancy is to preserve, in essence this is a little bit of simplification, the diversity of life on earth, there seems like it would be a lot of transactions to get enough diversity of life on earth to satisfy our mission.. So I'd say in any enterprise that you go into large or small, keep your eye on the ball, what is this enterprise all about? What do I want to accomplish and if I'm in a leadership role or if I'm in an entrepreneurial role, what is my compass head towards? What do I - what am I trying to get done and it's so easy.. Any of you who have worked in any kind of enterprise realize that day-to-day the noise can distract you.. And you lose sight and I see that a lot in non-profit organizations.. How many of you have worked for a non-profit, even as a volunteer? A lot of you, okay.. So that means I can't lie too much about non-profits or you're going to catch me on that.. But I think you'd agree, anybody who is working in a non-profit that keeping your eye on the prize is a challenge..

Again, because, in part, it's hard to define what that prize is in ways that are simple, understandable, and measurable.. Another challenge for non-profit organizations is the - candidly the culture, typically is one of consensus.. And in part, I think that's attributable to the ethos, the mindset of the - okay, I have devoted my life to a cause, to a mission that is sort of sanctified by the non-profit status bestowed by the government on this enterprise.. And consciously or unconsciously people in non-profit organization, I think feel they're a little special, because they've sacrificed to go work for a non-profit, a cause - the cause driven.. And that is a very admirable characteristic and it is quite true.. People who work in non-profit organization obviously are there for the cause.. And non-profits typically don't pay as well as a for profit, if you could benchmark.. And so almost unavoidably or at least I'd say understandably a culture of a non-profit very much is like we're all in this together and therefore I want to make sure I get to touch every decision and I want to make sure that I'm okay with every decision.. And if I'm not okay with the decision, I sort of feel a sense of - I have legitimacy in like not aligning with that.. My father started and through his whole life ran a very successful business, engineering business as a matter of fact, got his degree at Cal..

My father was a great small business leader at that time, in the 50s and 60s.. But he very much had the outlook like this is my business, my capital in this business.. I get to make the decisions.. And he was not autocratic, but he didn't tolerate a lot of well, you know, I don't think I align with this, it's like you're on the bus or you're off the bus.. So non-profit organizations are challenged by that kind of culture and I don't say that dismissively or derisively, it's just the reality.. So being an entrepreneur in that culture can be a bit of a challenge.. Candidly I've looked back on my now 35-year career in the not for profit sector and thought I'm not sure I really had the patience over all those years to deal with that sort of culture, and I've made a lot of mistakes because of that.. Because you can't fight that, you've got to work with that.. Speed in non-profits therefore is kind of rare.. And today when we live in the VUCA world, V-U-C-A, are you familiar with that? It comes out of the military..

There is an enterprise nearby - the institute for the future.. Bob Johansen has done a lot of forecasting there.. He uses that term to describe a volatile, uncertain, chaotic, ambiguous world, getting more so.. And what's interesting to me is in many respects Moore's law - I'm going to put you on the spot - anybody not familiar with Moore's law? Become embarrassed to say so.. So, Gordon Moore, founder of Intel, in 1965 wrote a paper in a now long gone professional journal that described his projection of how fast the speed of microprocessors would grow over time and how the cost would come down and was - these were exponential curves.. In 1965 I was in 8th grade.. I mean we were still using slide rules.. Gordon projected that in 25 years virtually everybody could afford what in essence is a laptop computer, a personal phone and a number of other things that would come as a result of the application of his law.. The extraordinary thing is not only did it last for the period of time that he projected, it's still happening.. And interestingly Moore's law has now become sort of popularized to generically describe the pace of change in society..

So when I came to the foundation, this is great.. I mean, Moore's law we're going to be able to - maybe there is Moore's second law; how it would apply to the philanthropic sector, the not for profit sector, could we move the speed.. It's really challenging.. So an entrepreneur in the not for profit field has to deal with the paradox of the world moving at a very fast pace, dealing with people who are devoted to a cause they believe in, a passion just like oozes out of their pores.. And yet, kind of stuck in a very consensus oriented mindset.. Now having said all that, I continue to believe very, very unequivocally that the not for profit sector, I'd say even more so the philanthropic sector, is in a position to drive major social change more so than any other sector in society.. But I don't see it stepping up to that just yet.. Now why do I say it can and why do I say that it's not yet? It can and now listen I'm going to talk about the foundation community.. So our foundation has \$6 billion in assets, by law we're required to give about 5% of our asset wealth every year.. We can give more, but by law we're required to give out at least 5% so that's - Stanford students 5% of \$6 billion is \$300 million every year..

So we turn the spigot on every year and \$300 million comes gushing out and we can do anything we want with that as long as it's devoted to a philanthropic enterprise.. Unbelievable! That could actually - we could burn it.. And next year I turn that spigot on and another \$300 million comes out.. So I think wow, if that's the case, I could burn that and I still have \$300 million and if I want legally I could go into the \$6 billion and use that.. Why don't we shoot for the moon? Only a foundation or only I'll say private charity has the wherewithal and actually the legal ability to think about lasting forever.. So we are set up in perpetuity.. I mean, maybe the Catholic Church is the only other that you can say they can think in perpetuity.. So you think wow that's incredible.. We can last in perpetuity; we could live forever with \$300 million coming out in today's valuation, every year to do something great.. Why wouldn't we reach for the stars? Interestingly, and I would say quite candidly I think foundations are among the most conservative actors in society..

And why is that? I'd assert because frankly not enough people with entrepreneurial zeal, a passion for moving fast for experimentation for rapid prototyping, for taking risks and being willing to learn from it.. Not enough of those kind of people are going to work for foundations.. It would be a hugely contributory - contribution to society if all of you with your entrepreneurial backgrounds willing to work for a foundation, you could change the world.. And I don't mean to cast dispersion on the people who work in foundation, but typically foundations have hired people from academia or from NGOs, wonderful people.. The people who work at our foundation are fantastic people.. Our foundation was built on Gordon Moore's belief that philanthropy should have a strong business orientation to it.. Meaning, keep your eye on the ball, take risks, we can build Intel.. Reach for the fences, that's Gordon's phrase "Reach for the fences".. We're the biggest funder of environmental conservation, which is why I came to the foundation, which is why I knew the foundation.. Biggest funder of environmental conservation, Gordon said at the inception of the foundation he wants to win in the environment rather than lose slowly and I love that..

So here is an extraordinary and generous man comes out of a business background says, okay I want to do philanthropy, but I want her to be imbued with the best principles of an entrepreneurial enterprise.. And in that combination would be, I believe, the key to solving or at least addressing major social problems, because I also think that today's social problems, it won't solve them.. They're so complex, we're going to manage them.. So, foundation has the capability of staying with a really wicked problem for a very long time: trying things, learning, adjusting, course correcting, learning, adapting in real time.. And it has the ability to strike something really fast.. When I was at The Nature Conservancy if an opportunity came along that required significant funding, \$10 million, \$20 million, I would have to go raise that money and a lot of times the opportunity for - if it was something that was like presented, if we could do this with that - with the World Bank we could drive a change that would completely reorient say the lending policy of the World Bank.. But you'd need some fast mover money out there that was on the table to drive a slower, bigger international institution.. Oh God, we can't do that - that we couldn't do that at The Nature Conservancy.. The foundation, I can call up our invest - Chief Investment Officer, nothing prevents me from saying, Denise, would you wire \$20 million to this qualifying non-profit? Yet, our foundation, like many, has encumbered itself with processes to move money out.. And I have to tell you, is anybody here from the Moore Foundation? They may be watching us all in the future..

I say this with the greatest respect - we develop processes to move money out the door and they become an orthodox.. An orthodox and you think, wow gosh, it takes six months to get money out the door, you've got to fill up these forms, and we've got templates, have to be reviewed by lawyers, all imposed on our self.. And it's hard to strip those things out.. When you think about it.. foundations have no incentive to change.. There are no external influences that drive a for profit, to respond to changes in customer tastes or demand, supply chain perturbations, no external influences that drive a non-profit organization to think about how its soliciting or recruiting support and none of the external influences in the form save of legislature that a government agency has to deal with to make sure they get an appropriation every year.. No external drivers that impose that sense of urgency and a need to change.. I was talking with a consultant not long ago, who is very well known for his engagement with big business actually in driving strategy very fast in a rapidly changing external environment.. And I've heard him speak and I admire him enormously, I've read his books and I said, yeah, I'd love to have you come help me think about how I could position our foundation not as a grant maker, foundation that make grants as like this grant making machine, but as a change maker.. And using all the assets of our enterprise - our name, the connections we have, the ability to move fast, the ability to stay with things for a long time, I would love to have you help me position this foundation as like a whole new concept of philanthropy..

He said, you know I've worked with foundations and I'm not going to do it anymore because they don't want a change.. So when I go to work with the CEO at a company, large or small, I ask them what are the three, maybe, five things that you worry about in the next five years that could really disrupt your business.. And they start there and then they work off of that and start thinking about, okay, looking ahead to have foresight to come back to insight so they can take action.. He said foundations like - I ask him what they're worried about and it's like job security.. Its internal things that they're concerned about.. So, we're at a point in society, in this country, when philanthropic dollars are increasing at a pace they never have before.. We will see more money devoted to philanthropy in the next 10 to 15 years than we've seen in the last 100.. Bill Gates and Warren Buffett put a challenge out, you may have heard of, call the giving pledge.. And they asked people of net worth of \$1 billion or more to make a public pledge that they would give away half of their wealth during their life time.. And there are upwards of 100 people who have signed up for that, a fair number in this community here..

You may have seen that Mark Zuckerberg gave \$500 million of Facebook stock to the Silicon Valley Community Foundation recently.. And these are just examples.. The amount of money going into either structured or directed philanthropy is increasing dramatically.. So the opportunity for that funding to take on major social problems and drive major change and be a leader is more ripe than ever before.. And we are beginning to see some very interesting shifts in how the new philanthropists think.. Many, again, from this area.. So you may have heard terms like strategic philanthropy or venture philanthropy, outcome based philanthropy.. But philanthropists thinking in terms of the eye on the price, how I'm going to measure results, how can I move fast, how can I wrap the prototype, how can I learn fast, how can I fail fast, how can I take what I as an entrepreneur have turned into something very successful in a private sector, into the public sector.. And so I think we're as I say, at the threshold of kind of a renaissance, a rethinking of, a reimagining of how philanthropy can work and at the same time we're seeing more non-profit organizations that rely on that support realizing that the characteristics, attributes, assets of those who are successful in enterprise management are imperative in the not for profit world.. Not for

profit world again has many people who are drawn to it and they have the cause deep in their gut, non-profit leaders are often charismatic, almost dangerously so sometimes as we've seen, able to attract people to them and raise money..

But not so good at making sure that that money is applied in a way that is really driving results.. But we're starting to see more of that and more business schools are seeing the expansion of let's call it social enterprise in the business schools.. And after all you think about future business schools, I'm convinced that someday they won't - someday they won't to be called business schools, they'll be called maybe enterprise schools, because the distinction between non-profit organizations and for profit organizations is going to blur.. And I actually think that the not for profit sector could benefit enormously as I said previously from having people come in with really good leadership skills in all their dimensions, but also great management skills.. Keeping their eye in the price, measuring whether they're making progress, and being willing to adapt.. Now in saying that, I will still put out a caution.. Non-profits are not for profits.. It is very hard to measure results in a quantitative way in a not for profit organization.. And as the adage goes, what you measure gets managed.. If you put emphasis on things that are measurable, you actually may drive organizations to do things that aren't really adding up to the prize..

Someone shared with me a little while ago, a guy named Mario Molina who is a very successful investor, venture capitalist, who has got deeply involved in the Art and Science practice of philanthropy.. And has advocated for outcome based philanthropy, said you need to be careful about it, because as we saw in Vietnam, the measure was body count.. You can count the number of bodies that were the result of a battle and what happened? We lost in Vietnam.. We drove all of the field leadership to think in terms of how many bodies could we get in that battle.. And we're adding up bodies at the time we were not - this country was not making progress in the political environment, in the economic environment, in the social environment and in Vietnam.. And then so I had no hope of winning in Vietnam.. And the north Vietnamese were willing to keep putting bodies into the body count.. Good example, but a sobering example of measuring the wrong thing.. So in a not for profit setting, measuring success will require much more nuance, much more subtle ways of accessing progress, more like gathering evidence for a legal case than it is sort of counting something.. So, that's one caution..

Another caution is that especially with the emergence of this new generation of philanthropists who have a very strong grounding in entrepreneurially driven enterprises where they've been inordinately successful, generated a great deal of wealth.. Frankly figure they kind of know how to do almost anything and see themselves as drivers of change, good thing, but also needed to help non-profits be more sophisticated.. And I'll tell you having worked, again for a non-profit organization, the temptation to change what you're focused on in order to get that money is too great.. It's overpowering.. So, as I said every year I worried about raising enough money for The Nature Conservancy, and we had a strategy driven towards our mission.. We thought it was well conceived.. We would sell that, and often I would encounter very wealthy people who would say well, that's interesting, that's not what I am interested in.. I am interested in this other thing.. That you know was close enough.. You know I was just thinking about that myself..

I think well that's a really good idea, we're ready to go do that, and I will confess that more than once I was seduced into getting a big contribution not thinking through the implications, and actually ending up taking on more of a fund raising burden.. There was one time when we were working with Caterpillar Corporation and they had a strong interest in watershed management.. We didn't have a lot of experience in watershed management.. We had bought land on river corridors, but watershed management is a much more complex undertaking.. And having to understand the users of water, and issues like contamination of water, water rights.. But Caterpillar was really interested in that, and they said well they'd be willing to put up \$15 million.. What did I hear? \$15 million.. So I said yeah, you know we were - that's where we're headed is watershed management.. We're going to take all these properties that we bought.. We're going to figure out, work in the larger watershed..

And we got into it and realized this is at least a \$50 million undertaking, this was on the upper Mississippi river; it's not a small river.. And you know I ended up kind of slogging through, but not really living up to what Caterpillar wanted from us.. So philanthropists as entrepreneurs, need to be very thoughtful about the pull that they have on organizations and how they can vary profoundly, disorient or distract organizations from what they say is their mission.. And it's very hard in a non-profit organization where you're thinking from year-to-year how you're going to raise money to have a ten year horizon; I'd prefer to have a three year horizon.. That you're going to take on a project where we're going to stick with it for three, five, ten years, but I can only be confident in funding for the first few years.. So, I think one of the most important things in the coming five years, as we see this flourishing of philanthropy and a very entrepreneurially driven philanthropy which I think is terrific.. I think it's going to be imperative that philanthropists understand the kinds of organizations that they are supporting, they're not for-profit enterprises.. And that connection between the funder and the non-profit will be exceedingly important.. You, I am sure, have heard the term social entrepreneurs.. It's become I'd say quite an attractive thing for foundations to support..

And again in many cases the foundations or the funder's are people who have been entrepreneurs in the for-profit sector.. I believe that an entrepreneur is an entrepreneur, whatever sector they're in.. They can do anything.. An entrepreneur is characterized again by passion about getting something done, moves with some pace and speed.. Willing to take risks, has high comfort for failure.. That applies in any context, in any milieu, in any sector.. The challenge, however, for a funder who's interested in supporting social entrepreneurs is that the notion of startup capital is very, very different in a not for-profit setting than it is in a for-profit setting.. In the for-profit setting you're betting on somebody who's going to get to a point where they can spin out a product or a service, something that has demand from buyers.. And so the notion of startup is I can

get this, I can spin that flywheel by providing some funding.. That roughly same philosophy has applied to social entrepreneurs..

I am going to find people who have a great idea, who show all of the characteristics and attributes of being a great entrepreneur.. They're doing it for a social cause, and I am going to back that person with startup capital.. And what happens is, more often than not those social entrepreneurs have no other capital coming in.. I know one funder who puts up \$250,000 sort of per entrepreneur, social entrepreneur over a five year period of time.. With the expectation that within five years or by that five year horizon the social entrepreneurs will figure out ways of raising other money.. There aren't that many other sources of funding.. Another consequence of that is it's tending to fragment people who are really, really talented, when they should be aggregating.. So you find people who are self-identifying as social entrepreneurs finding that there's more and more sourced of funding for social entrepreneurs going, making the case for me to do this thing, when in fact they should be aggregating themselves and say, why don't we work together and develop something that can get to a critical mass or can have sufficient scale to last forever.. And I am seeing really, really fine people move out of big non-profit organizations to become a social entrepreneur because they like the idea of a startup, when I would really encourage them to be a sort of positive deviant within their own organization.. I was actually just talking to a funder the other day and I asked him, have you ever thought about doing that..

Finding a big organization where it's an established organization YMCA, Nature Conservancy, Care, that's got an installed established presence, big resources, but frankly probably kind of plateaued on the yield curve a little bit.. And you see that with big non-profit's.. Have you ever thought about funding people in them, to be an entrepreneur as the term used to be, the positive deviant, somebody who could have the backing of a funder to drive change in a big organization and take advantage of the entrepreneurial characteristics of some individuals, but the resource capacity of a big organization? And I haven't seen that yet.. I think that's a niche for funding in the not for profit sector.. So as a way to maybe sort of wrap up and then I'd be very interested in your thoughts and your questions.. I think that the world, the issues - and we it's a little trite to say - the world is so interconnected now, that the problems are enormously challenging because they are global in so many ways and yet because of that they're also actually tractable.. And the not for profit sector has become more sophisticated, is getting more sophisticated is better prepared to take on those tractable problems.. At the same time there is this enormous infusion of wealth going into philanthropy.. And so, I really do look to the not for profit sector to step out in front and drive social change.. The philanthropist shifting from a sense of charity, we bestow a grant on you; we provide this award to you as a charitable beneficiary; as a grantee..

Even the terminology we use is sort of condescending.. Moving from being a charity to drivers of social change, working in true solidarity and collectivity with the organizations they support.. So that the combined wealth that is emerging in this country can have far more influence collectively than it will separately.. With that solidarity with the supported organizations creates a true sense of partnership and not an asymmetrical relationship of funder and grantee.. And I really do believe that with the challenges we see in the political arena, with what I see as really an emerging and deep seated understanding in more progressive elements of the for profit sector and especially again from my background in sustainability, we're seeing more and more big global companies realize that sustainability has a profound bottom line influence.. We're seeing investors like Jeremy McGrath from Boston, starting to point out that if we take the long view in investing we'd better be looking at enterprises that are thinking; where are they going to get their water? Where are they going to get their temporary resources? Where are they going to get basic commodities, 10, 15, 20 years from now? So there's a shift in the wind.. And international institutions slow, politically challenged, not stepping out in front, that there is a chance now for the not for profit sector, the philanthropic sector, working in tandem with the business community to take on huge, huge social problems.. Each one bringing something that is unique in terms of its outlook, its resources and its capabilities to address those problems.. I really do think we're on the threshold of a very, very exciting new era.. But all those sectors will have to step up in ways they never have before and in ways that sort of put aside again their conventional thinking and their orthodoxies and really try to step out of the mould, and we're seeing, I believe, some of the first signs of that..

So I am very, very, very hopeful.. I see in this room people who I am - I am convinced that in one way or another every one of you in this room, every one of you who's a student at this school - anyone who's under 25 basically let's say, in 10, 15 years in one way or another will be working in some enterprise that is addressing major, social change whether it's a for profit, government, or not for profit.. And I hope in that 10 or 15 years you'll think back and say oh that guy McCormick was kind of on it, this is a very different way of society working together in a VUCA world.. So the future is in your hands.. Don't fuck it up.. See that's how we talk at Berkley.. Questions, yes.. Yes, so you talked about the incentives or the lack of incentives for non-profits to actually be a lot more progressive or a lot more profit driven or be efficient but actually I am just wondering you know that the government really should be the one that - who coordinates because we see a lot of asymmetrical information of divided community within the non-profits, a lot of them are working on the same issues and so actually there's a project that I and a few of other students at Stanford were actually in another class in international policy studies.. We actually are addressing these issues through using government as the one to, because there's \$600 billion, \$500 to \$600 billion each year as grants money given to NGOs but not necessarily knowing what everyone is doing.. So we're just thinking you know may be there should some, a percentage of that money being given to NGOs with expectation of showing precisely how efficient or how effective everyone is doing and giving each American - maybe a voucher of \$50 or something to locally vote for which NGOs are doing their job depending on what like, their information knowing what these NGOs are doing..

So do you think like maybe some possibility of working with the government and persuade them to take on some responsibility of actually coordinating or monitoring in some way to make NGOs to work better and also so that this is also a way for a lot of NGOs to have a free advertisement opportunity and also work closely with population who they need to address their problems with.. So I hear what you're asking is, could - Sorry it's a lot of questions.. It's like, got it - could is there some opportunity to convince the government to create a weight of understanding the efficiency and effectiveness of non-profits.. What I am trying to say is - So is that close enough because if it's not, it's a good question.. Yeah, I think like organizations like Gabe's foundation or your foundation can actually be put to persuade the U.S.. government or some other governments to actually make legal, create some legal ways of actually creating a systematic measurement of efficiency.. On efficiency, got it.. So, at the risk of sounding flip asking government to determine if non-profits are efficient is probably not likely to happen.. We've a big issue whether the government is efficient, but you're hitting on a really interesting point.. How do you know if a non-profit is effective? And that's a very, very hard thing for a donor to figure out and if you're a modest donor, if you're giving \$50 a year you're not going to spend a lot of time trying to figure out - is this organization efficient? If you're a big donor like we're, we do a lot of due diligence on the organizations that we support and we spend a lot of time with them..

So I have two observations; one is as I was perhaps a little elliptical way suggesting earlier, non-profits are inherently inefficient.. They're just not efficient, they're not - they're just not efficient and unfortunately there are ratings services actually, guide star, charity navigator and the better business bureau.. They have rating services on the efficiency of non-profit organizations and typically what they look at it is, what's the percentage of the budget that goes to overhead, and what goes to program.. And so you think well that's probably a pretty good measure, it's not.. And non-profits figure out how frankly how to gain that.. There are ways you can classify certain expenditures that look like program, it's not illegal, it's just - in recruiting members you put out a lot of marketing materials.. Is that marketing, or is that advertising? Promoting your cause is another way of putting it.. So it's not actually, frankly I don't think any of the rating services really give you an insight into efficiency in any event I don't care about efficiency.. We support organizations that are incredibly inefficient and I spend a lot of time trying to help them be efficient, it's beside the point.. They're incredibly effective..

Could they do it in less money? Probably.. Is it worth the time to try and make them do that? No.. They're incredibly effective.. There are no services that give you an insight into the effectiveness of organizations and I - a guy who just left the Hewlett foundation who I have great, great respect for, Jacob Harold has just gone to be the CEO of Charity Navigator and he to his credit is going to try to crack that code.. How could you create indices or insights into the effectiveness of organizations, but when you think about again the - the structure of a - how a non-profit organization gets its revenue as opposed to a for profit, a for profit has to be constantly providing something that somebody wants to buy, either a good or a service.. And they can manipulate that perhaps by advertising but still consumers are making decisions, putting money out to get something.. If they don't do that, the enterprise is gone.. Non-profit organization relies on a funder who's not a beneficiary.. So funders putting money into the organization for that organization to go benefit something.. Nature, in the case of The Nature Conservancy..

So how do you go asking nature? Is The Nature Conservancy, so who's better The Nature Conservancy say, World Wildlife Fund or Wildlife Conservation International.. It's very, very, very hard to make that determination and it requires a lot of time if you're a donor to tease behind that.. I do think one of the things we're going to see more of and I think Jacob is at the forefront of that, are insights into the effectiveness of organizations irrespective of their efficiency.. Kind of a related question around compensation, I think that when you go to a non-profit you're sort of presuming that you're taking the vow of poverty and in judging how these are rated right, salaries or overhead, right, I mean so it's sort of designed that way.. And yet in Silicon Valley we recognize that to get the best talent sometimes we have to pay, there are markets for great talent, and I am just wondering being in a foundation, so you're not having to constantly pass the donors test.. I am just wondering if you could talk a little bit about what your compensation philosophy is and how do you incentivize besides the great work that people know they're doing, there are people in Silicon Valley who think they're doing great work too in for profits.. How do you incentivize your staff? Well that's a great question.. So how do we at the foundation incentivize our staff - In compensation.. In compensation.. Is it more like a non-profit or it is like a for profit? Yeah, really good question..

When I came to the foundation again in the spirit of Gordon's desire to create an enterprise that had sort of the best characteristics of a business and a non-profit.. We had a significant incentive pay element.. Significant for I've never seen anything like it in anything other than a for profit.. But it doesn't work as well in a for profit organizations because again they don't have a convention of metrics.. So if I have a sales force, I over time can establish a pretty good understanding of what, if somebody really puts their heart into it, works really hard, what a benchmark would be.. What I could expect from an annual sales effort and reward somebody accordingly.. In a foundation that's really hard because, are the outcomes that we're trying to achieve for which we would be rewarded a consequence of what we did or the organizations that we support.. Now that's a huge complication.. And then it puts it creates a distortion around frankly near term things and it really diminishes a push towards risk taking and experimentation.. So we did away with it..

I have not seen in any not for profit organization that is not a foundation but a typical NGO, I have not - there are incentive elements to compensation that nowhere near like what we had at our foundation - what we had at our foundation was nowhere near what you would have in a for profit in terms of the proportion of that annual incentive compensation.. On the point of compensation overall in non-profit organizations is really well taken, Heidi.. I think leading a huge global enterprise

like Care is as challenging as a huge global enterprise like General Motors.. More so in many ways.. And yet it is the convention and I don't see this changing at all, that non-profit compensation is a fraction of for profit compensation and, in fact, the IRS will even look at whether - all non-profits have to file a 990 every year, it's basically their tax filing.. That 990 has also become a disclosure document.. So serving two purposes and neither one of which very well, but those 990, everybody looks at the 990s now because that's to show the top five compensated employees.. So it's public information and Congress keeps an eye on that and the IRS keeps an eye on that and that gets out into the donor space.. I'll share with you; when I was at the nature - this is a whole another story, this is a whole another hour story.. When I was at The Nature Conservancy, so I had grown up with The Nature Conservancy, I become president in 2000..

When I started our media people told me the Washington Post is working on an in-depth story about The Nature Conservancy, I thought perfect.. I come in as the CEO, do an in-depth story, I'll be the hero.. Listen here you don't understand, this is the investigative unit.. So what, I mean we're a great organization well long, long, long, long very complex story.. In 2001 obviously the other things happened and we invaded Iraq.. This three part series came out in 2003.. And it was like getting hit in the solar plexus.. It was, it started above the fold on Sunday which is when they start all their big stories.. It went for three days.. And it led to a congressional, the senate finance committee investigated us..

And it had to do with transactions we'd done with people who had been close to The Nature Conservancy and the assertion was that we had crossed the line of ethics, if not crossed the line of the law.. But I mean they went into everything, including my compensation.. And in 2003 I was paid \$420,000 and it was like, could you believe McCormick makes \$420,000 and I got letters from irate members saying I can't believe that this level of salary you know you dedicate yourself - corporate influence is terrible.. And I was thinking \$420,000 is like it's not much, you got 4,500 people spread around the world and a \$500 million budget I got to raise every year, there's just a big backlash to high levels of compensation in not for profit.. Someday that may change, I hope it does.. End of story, we were cleared by the senate finance committee after two years of rigorous examination, but as I say that's a whole another story, put out there only to tell that story about the scrutiny of salaries.. I think it's a real injustice to tell you the truth.. If we're going to get the caliber of people to go work for non-profit who have that entrepreneurial orientation and desire, but nobody goes to work for a non-profit for the money but nobody should really have to sacrifice their personal lives because the levels of compensation are so low and the stress in a non-profit organization is extraordinarily high, I traveled between 60% and 70% of my time when I was president in The Nature Conservancy, I had two little daughters growing up.. But you know you're not going to come out and say that in the light of a senate investigation.. You kind of hit a - you hit a sensitive spot..

One more please.. Yes.. Building off of that, you talk about how you need to get more people from the social sciences into foundation but there is a humongous financial incentive against deviating from the Wall Street and consulting path? Will your foundation be willing to invest in a program that works to get more top students from top universities into the social sector? Yeah that's a really good question, did you all hear that? Would our foundation - would our foundation or other foundations be willing to invest in ways of bringing people who have the kind of skills and talents I was describing and I think are necessary but, frankly, understandably are attracted to working for a McKinsey or in a corporation or a startup.. The short answer is not, we haven't yet, but I was at dinner last night with some other foundation presidents and we talked about this.. We actually had our foundation, we have six people who came from consulting backgrounds, four of whom are McKinsey.. And these are not people who were rejected by them but who felt that this was a different path they wanted to pursue.. So I am not sure that we have to actually invest in it.. I think there are other ways to attract people with those backgrounds into the not for profit sector.. We are as a foundation working with some of our major grantees in helping them build leadership and in those cases we're actually providing support for them to go hire people who frankly wouldn't take the job but for a little higher level of compensation so we're doing that.. I think we are out of time...