

# THE GIVING CODE

## SILICON VALLEY NONPROFITS AND PHILANTHROPY

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By Alexa Cortés Culwell  
and Heather McLeod Grant

OPEN / IMPACT

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SECTION

1

# INTRODUCTION



Economic booms are not new in Silicon Valley, yet in recent years the region's growth has been nothing short of breathtaking. The technology companies sitting at the epicenter of Silicon Valley's economy—giants like Google, Apple, Facebook, and LinkedIn—continue to grow at accelerating rates, generating \$833 billion in sales last year.<sup>1</sup> The number of local startups with pre-IPO valuations greater than \$1 billion [so-called “unicorns”] is also soaring. In 2011 there were three unicorns in Silicon Valley; in 2016 there were 21, creating an unprecedented lineup of blockbuster companies hoping to go public—and adding new volumes of personal wealth to the region in the process.<sup>2</sup>

While Silicon Valley may be at the peak of yet another bubble, this recent wave of prosperity has already changed the region's landscape in ways that seem deep and enduring. This new wealth is abundantly on display as you make your way through a sea of Teslas on Sand Hill Road, where many of Silicon Valley's marquee venture capital firms have their headquarters. You can also see it in the region's increasingly gentrified neighborhoods, where modest 1930s craftsmen bungalows and 1960s ranch houses are being torn down to make room for larger, more contemporary dwellings. If you live and work in Silicon Valley, you may take this affluence for granted because it permeates daily life. You may think that with so much growth, everyone's boat is rising. But you would be wrong.

Even as Silicon Valley's millionaires and billionaires multiply, many of its 2.6 million residents are being plunged into financial distress. The regional cost of living has climbed so high that a stunning 29.5 percent of local residents—roughly 800,000 people—rely on some form of public or private assistance in order to get by.<sup>3</sup> Thousands of families have been forced out to more affordable destinations in the Central Valley, and thousands of others will have no choice but to follow. Today's Silicon Valley is a place marked by extreme polarities: entrepreneurs swarming to the region *and* middle-class residents getting squeezed out; 20-somethings earning their first million *and* low-wage workers sinking deeper into debt. In one Silicon Valley neighborhood, luxury vehicles in every driveway; in another, families living out of cars.

This widening gulf—and all the attendant social destabilization that comes with it—is hardly unique to Silicon Valley. Across the United States, citizens are seeing the fabric of their communities eroded by the imbalances that come when the “haves” gain more, the “have-nots” lose ground, and the cost of living outpaces growth in jobs, real wages, and incomes. Yet despite the pervasiveness of this dilemma, very few good ideas have emerged for how to address it.

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If you live and work in Silicon Valley, you may take this affluence for granted because it permeates daily life. You may think that with so much growth, everyone's boat is rising. But you would be wrong.

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1 Leswing, K. (2016, April 25). Apple Scooped Up 40% of Silicon Valley's Publicly Traded Profits Last Year. *Business Insider*.

2 The Unicorn List: Current Companies Valued at \$1B and Above. (2016). CB Insights; The Unicorn List. (2016, January). *Fortune Magazine*

3 Massaro, R. (2016, February). 2016 Silicon Valley Index, 28. Joint Venture Silicon Valley.

## CRITICAL DEFINITIONS

In this report, we define Silicon Valley as San Mateo and Santa Clara counties (as seen in **Figure 1.1**), a region of 1,738 square miles and 2.6 million people, according to the US Census. It's a huge and sprawling area with seven major cities serving as hubs. It's home to many of the world's largest tech companies, universities, and research parks, as well as thousands of startups. Together, these two counties produce 25 percent of the GDP of California.

Some researchers include neighboring San Francisco County in their definition; we have chosen not to include it here even though a number of themes in this report could be applied to the larger Bay Area. The civic makeup of Silicon Valley is different from that of San Francisco in ways that matter to this report and to the future of the region's nonprofits and philanthropists. San Francisco is the smallest county (by geography) in the state with one school district and one city government. Within San Mateo and Santa Clara counties, though, there are 35 towns and cities, 25 unincorporated areas, and 55 separate school districts. This fragmentation continues to create enormous challenges that larger cities like San Francisco don't

have to manage. Lack of regional coordination is a leading reason why local government solutions to Silicon Valley's rising problems are falling short, and why the work of nonprofits and philanthropists in the area continues to be so critical.

Other important definitions in this report have to do with how we define "foundations," "nonprofits," and "community based organizations." Technically, "active public charities" comprise both nonprofits (501-c3s) and foundations, and most academic data refers to "active public charities." For ease of reading in our report, we use the word "foundation" to refer to grant-making organizations, and the word "nonprofit" to refer to all other charitable organizations that receive grants. Within the category of "nonprofits" we have further defined "community based organizations" as those nonprofits that focus the majority of their work in Santa Clara and San Mateo Counties, as differentiated from other nonprofits which might be based here, but which serve regional, national or even global populations.

For more detail on our research methodology, and additional definitions, please see the [Appendix](#).

**Figure 1.1. Silicon Valley Region of Study**



We would argue that Silicon Valley has a unique opportunity to address this challenge—an opportunity to change how these dynamics play out in a community, to disrupt the social breakdowns that occur from extreme imbalances, to break the old economic model and build a new one. It would be the ultimate disruption and the ultimate creative triumph: to figure out how to reengineer the economy and the physics of place to create healthier communities and opportunities for everyone, not just the wealthy. How might this be achieved? We believe it begins by inspiring a new kind of conversation and coordination among critical stakeholders in Silicon Valley—including local nonprofits, local government, and, importantly, the region’s active and growing philanthropic community.

All the wealth being created in Silicon Valley right now is driving enormous increases in new philanthropy. The multigenerational families that have long served as the region’s philanthropic bedrock—the Hewletts, Packards, Morgans, Arrillagas, and Sobratos, among others—are being joined by corporations and institutions that are now giving at unprecedented rates. Critically, they are also being joined by a wave of new individual philanthropists—literally thousands of young tech entrepreneurs who seem determined to direct both their financial capital and their ingenuity toward solving some of the world’s most difficult problems. This cohort is a leading reason why, between 2008 and 2013, total Silicon Valley-based individual giving rose from \$1.9 billion to \$4.8 billion—a 150 percent increase.<sup>4</sup>

To be sure, many of these givers are directing some of their funds to local issues and causes. However, our data shows that a larger portion is being directed toward nonprofits *based locally*—primarily private schools, universities, and hospitals—but not necessarily to nonprofits serving local *community needs*. In this last category stand thousands of community-based organizations working to address not just immediate needs in the region, but underlying systemic problems that are complex and pernicious, such as homelessness, poverty, and faltering public schools.<sup>5</sup> While these grassroots organizations provide critical services to vulnerable populations, more than 30 percent also report higher deficits than the national average.<sup>6</sup> These nonprofits are struggling to keep pace with exponential increases in demand for their services, lack the capacity and the funding to gain real traction, or are themselves in financial distress. Some have offices just blocks away from the region’s booming tech companies—but they aren’t sure how to attract Silicon Valley’s philanthropy to their causes. The support they need to have more systemic impact is often right next door, but it is not a door they know how to open.

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4 Giving USA 2016: The Annual Report on Philanthropy. [2016]. Giving Institute. How America Gives 2014. [2014]. *The Chronicle of Philanthropy*. For further information, see Appendix: Methodology, Individual Giving in Silicon Valley.

5 See Appendix: Methodology for definitions of *active public charity and community-based organization (CBO)*.

6 See Appendix: Methodology, State of Nonprofits.

## UNDERSTANDING SILICON VALLEY'S SOCIAL SECTOR

As social impact advisors who live and work in the heart of Silicon Valley, we personally straddle this growing divide. We know friends and neighbors who are benefitting from the tech boom, and we simultaneously advise local nonprofits serving those who are being left far behind. We have observed that the two groups often speak different languages and live in different worlds—with few bridges between them. And so we wanted to understand why: Why are local community-based organizations struggling to meet demand in one of the wealthiest and most sophisticated regions in the country? Why aren't more Silicon Valley philanthropists directing their dollars toward local organizations and issues, and why hasn't more entrepreneurial ingenuity trickled down to local nonprofits? What is the cause of these disconnects, and how might we help bring these two groups together in service of shared community?

When we started our study, we quickly discovered that we needed more nuanced and comprehensive data on Silicon Valley philanthropy and nonprofits than what was readily available. Interesting data points abounded, but the information was highly fragmented, wasn't publicly available, or lacked a coherent narrative. What was missing was a resource that connected this data to offer a more holistic perspective on Silicon Valley giving and nonprofits, one that could both illuminate the landscape and point to opportunities on both sides. So we started asking more questions. Just how many community-based organizations are operating in Silicon Valley, what issues are they addressing, and what are their needs? How much new wealth is being created, and how much of it is being channeled toward philanthropy? What are the motivations and barriers to giving overall, and specifically to giving locally in ways that help Silicon Valley's most vulnerable citizens?

With support from The David and Lucile Packard Foundation, we set out to answer these questions and create that missing resource. In the process, we unearthed a lot of information hidden in the nooks and crannies of various institutions, public and private. Where we thought interesting data might exist, we cajoled good people and organizations to share it with us and were touched by their generosity. We reviewed and synthesized mountains of statistics and built new datasets. We also conducted extensive qualitative research in order to surface the kinds of stories, experiences, and perspectives that even the best numbers can't capture. Over a six-month period, we engaged more than 300 Silicon Valley stakeholders—including wealthy residents and their advisors, nonprofit executives, corporate and private foundation giving officers, and thought partners across all sectors—in conversations about community needs and the present and future of Silicon Valley philanthropy. We conducted interviews with key individuals and created a survey to which more than 130 community-based nonprofits responded.<sup>7</sup> Along

### WE STARTED ASKING MORE QUESTIONS:

Just how many community-based organizations are operating in Silicon Valley, what issues are they addressing, and what are their needs?

How much new wealth is being created, and how much of it is being channeled toward philanthropy?

What are the motivations and barriers to giving overall, and specifically to giving locally in ways that help Silicon Valley's most vulnerable citizens?

<sup>7</sup> See Appendix: Methodology, State of Nonprofits.

the way, we did endless rounds of sense-making in order to understand the nuances of the complex picture that was emerging. And, we scrambled to digest new information coming online almost daily that related to core themes in this report.

This report offers a synthesized version of our findings. While it builds on work that others have done to understand Silicon Valley's economic, political, and social landscape, it also breaks new ground, providing a holistic portrait of the region's nonprofit and philanthropy ecosystems—their size and shape, how they operate, and where and why they do or do not intersect. In creating this work, we observed some glaring disconnects, noting with dismay that the gulf between what local philanthropists expect and what local nonprofits are prepared to provide appears to be widening. We also noted that while the region is being subtly shaped by an emerging “giving code”—an implicit set of strategies and approaches shared by Silicon Valley's individual, corporate, and institutional philanthropists alike—this code, on its own, isn't sufficient to solve its most complex and systemic challenges. Ultimately, we believe that the findings in this report can help spark the creation of an even more powerful Silicon Valley giving code: one that works on behalf of *all* the region's residents.

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## INSIDE THIS REPORT

This report begins with a quick overview of Silicon Valley's prosperity paradox, sharing key statistics that illustrate the region's explosive growth and skyrocketing wealth—as well as the deep disparities, displacements, and stresses that these economic forces have set into motion.

Next, we look more closely at the area's changing needs and the ability of local nonprofits to meet them, as well as the funding and capacity challenges facing these increasingly at-risk community-based organizations.

In the two sections that follow, we explore key trends in Silicon Valley philanthropy. First, we look in quantitative terms at the new contours of giving. How much local wealth is being earmarked for philanthropy, and what are the vehicles being selected for that giving? And how much of this philanthropy is going to community-based organizations? Then we take a deeper dive into the emerging Silicon Valley “giving code.” We look at how the path to giving starts and critical inflection points along the way. Then we examine—and challenge—the approach to giving that is widely shared among the region's new philanthropists, a code that is heavily influenced by the worlds of technology and business.

In the section that follows, we bring these two perspectives together, exploring some of the barriers and tensions between local philanthropists and local nonprofits and why they seem to keep missing each other. Finally, we share ideas for bridging these gaps and helping to make the local market of philanthropic supply and demand work more effectively. We hope that this will spark even more

ideas for how to help these two communities come together in service of all of Silicon Valley's diverse citizens.

Ultimately, we hope that in reading this report you will come to the same conclusion that we have while researching and writing it: that Silicon Valley is poised to become a region of vibrant nonprofits and committed philanthropists—along with business and government leaders—empowered to work in more coordinated ways to address the social challenges we face both in our local communities and around the globe. Our greatest hope is that Silicon Valley's powerful philanthropic community, in alliance with local nonprofits, will come to see significant, scalable, place-based change as one of the most important outcomes it can hope to achieve.

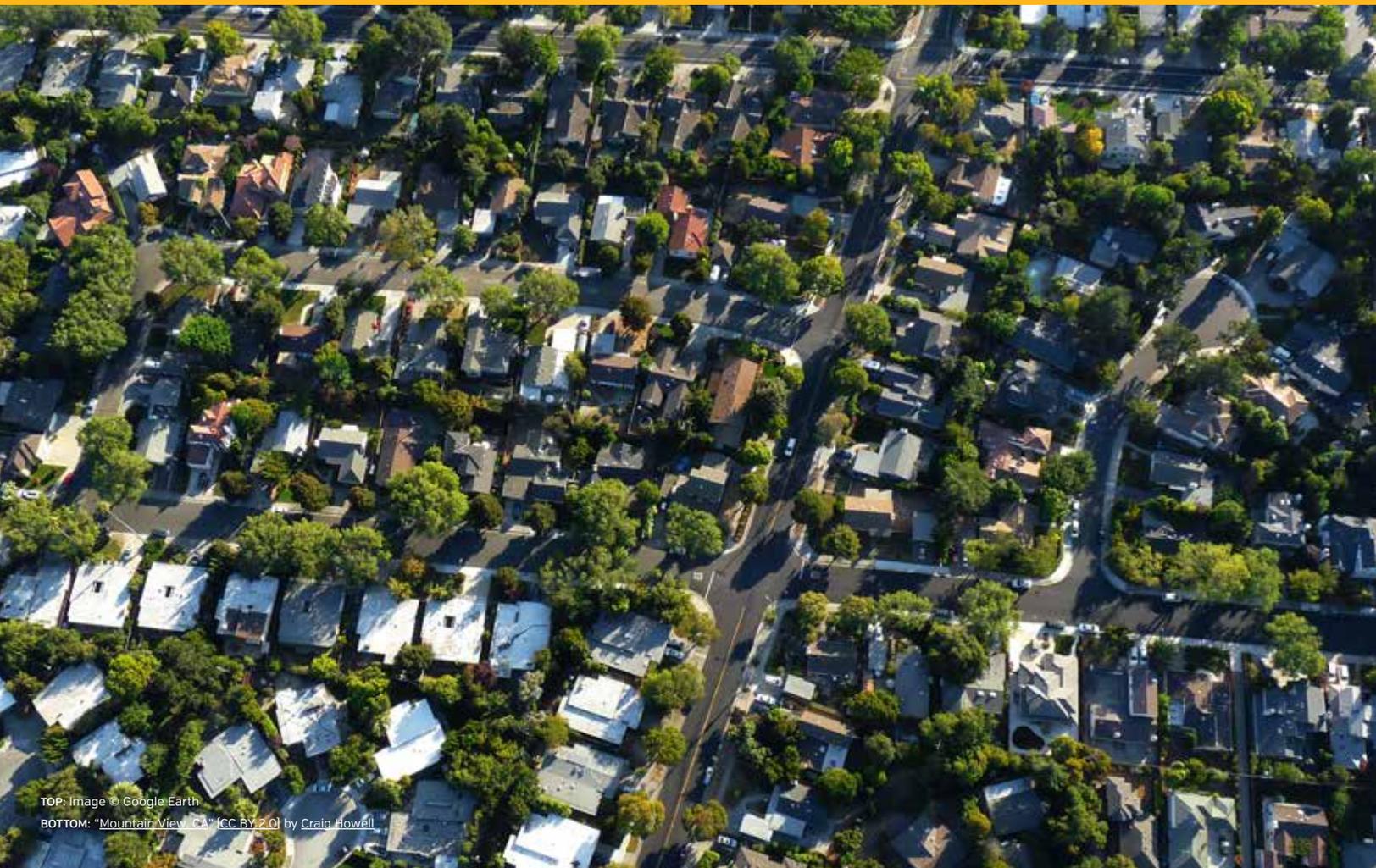
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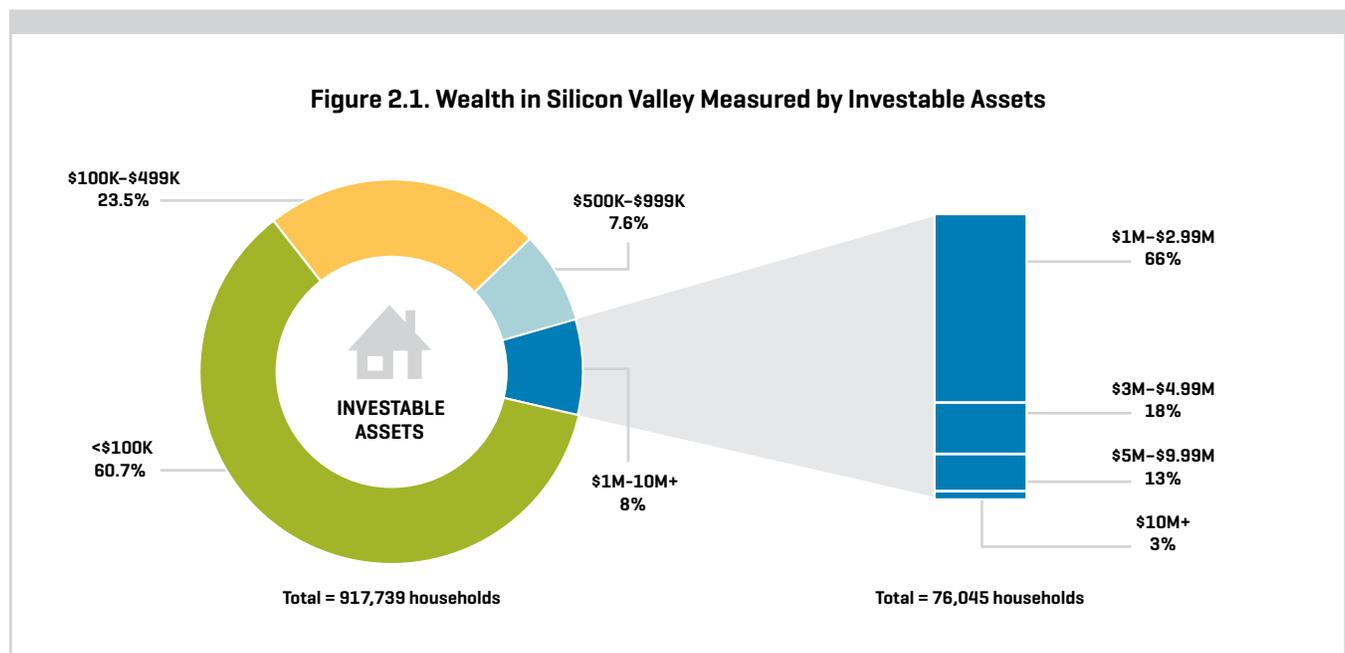


# SECTION 2 A TALE OF TWO VALLEYS



Almost since Silicon Valley’s founding, its development has been propelled by a potent combination of forces that still characterize the region today: radical ideas, risk-taking investments, rapid iteration, rogue entrepreneurs, and an ambition to disrupt the status quo both locally and around the world. This mix was evident when fruit trees dominated the local landscape in the 1930s and new technologies backed by audacious investors took the region’s agricultural industry global.<sup>8</sup> Later, in the 1960s, it helped ignite multiple waves of technology innovation—the age of microprocessors, the PC revolution of the 1980s, and the recent internet era—with each world-changing technology wave catalyzing the next.

Today, Silicon Valley is leading yet another era of disruptive change, as a new generation of entrepreneurs revolutionize the ways in which internet-mediated platforms and social media impact our lives. This new wave of innovation is accelerating more local economic growth than any that preceded it. An incredible 64,000 jobs were added in Silicon Valley in 2015—a 4.3 percent growth rate, more than twice the national rate.<sup>9</sup> The 10.5 percent unemployment that plagued the region in 2009 during the Great Recession has now shriveled to an average of 3.2 percent, one of the lowest in the nation.<sup>10</sup>



8 Malone, M.S. Silicon Valley Story. [2015, July 1]. *Santa Clara Magazine*. Retrieved from <https://magazine.scu.edu/article.cfm?c=22525>

9 Massaro, R. [2016, February]. 2016 Silicon Valley Index, 8, 17. Joint Venture Silicon Valley.

10 State of California Employment Development Department. Labor Market Information Division. Retrieved from [http://www.calmis.ca.gov/file/lfmonth/sjos\\$pds.pdf](http://www.calmis.ca.gov/file/lfmonth/sjos$pds.pdf)

The amount of income and wealth being generated by this economic boom is difficult to fathom. Silicon Valley now boasts more than 76,000 millionaires and billionaires.<sup>11</sup> As shown in **Figure 2.1**, a startling 12,550 households in Silicon Valley now have more than \$5 million in investable assets, and 8.29 percent of local households [nearly 50,000] have \$1 million or more in investable assets.<sup>12</sup> It is no surprise, then, that entrepreneurs and tech workers have been flocking to the region at the rate of roughly two people every hour, 40 people per day—or 14,907 in 2016, according to research by Joint Venture Silicon Valley.<sup>13</sup> And it's safe to assume that most of these individuals aspire to join the burgeoning ranks of the Silicon Valley elite.

## THE PROSPERITY PARADOX

However, this economic growth is also creating a different kind of disruption—one marked not by rising wealth but by financial distress and a sharp increase in the number of individuals and families who can no longer afford to stay. Silicon Valley's middle-class jobs are rapidly disappearing—declining by nearly 3 percent over the last decade—and so is the middle class itself.<sup>14</sup> From 1989 to 2014, the middle class in Santa Clara and San Mateo counties decreased by 11.2 percent and 10 percent, respectively, while the incomes of wealthy residents have risen sharply. In addition to the thousands of families that have been pushed out of their neighborhoods and cities into surrounding counties, more than 7,500 of Silicon Valley's residents relocated to other parts of the United States in 2015.<sup>15</sup> The region's teachers, firefighters, service workers, and artists—as well as some doctors, lawyers, and mid-level technology workers—are among those middle-class residents being priced out or just struggling to hold on. Local nonprofits are seeing a sharp increase in the number of [formerly] middle-class families accessing services such as free healthcare, food banks, and shelters.

Across Silicon Valley, it seems as if everyone is moving either in the direction of wealth or in the direction of poverty, with very few left in between. In fact Silicon Valley now boasts the greatest income gap in the country. In 2015 the area's high-skilled workers earned \$121,638 on average, compared to an average salary of \$26,624 for low-skilled employees, for a difference of \$95,014.<sup>16</sup> A low-income family in Silicon Valley today earns less than it did in 1989, and high-income households made almost all the region's income gains over the past 25 years.<sup>17</sup>

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Local nonprofits are seeing a sharp increase in the number of [formerly] middle-class families accessing services such as free healthcare, food banks, and shelters.

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11 Massaro, R. [2016, February]. 2016 Silicon Valley Index, 17. Joint Venture Silicon Valley.

12 Phoenix Marketing International's Global Wealth Monitor data. [2016, February].

13 Massaro, R. [2016, February]. 2016 Silicon Valley Index, 12. Joint Venture Silicon Valley.

14 Ibid., 21

15 Henton, D. Kaiser, D. Dennison Brown, E., & Steichen, R. Silicon Valley Competitiveness and Innovation Project - 2016 Update. [2016, February].

16 Massaro, R. [2016, February]. 2016 Silicon Valley Index, 28. Joint Venture Silicon Valley.

17 Reidenbach, L., & Hoene, C. Inequality and Economic Insecurity in Silicon Valley. [2016, May].

## RISING NEEDS

In our quest to understand how these forces are playing out in local communities, we engaged hundreds of nonprofit leaders through interviews, focus groups, and surveys. They spoke with a sense of urgency about the issues facing Silicon Valley's diverse residents—most of which are being caused or exacerbated by the region's skyrocketing growth. Housing was at the top of their list. Silicon Valley housing costs are increasingly prohibitive, as economic growth, low housing inventory, and high demand drive home prices to record levels. In 2015 the median sale price for a house in Silicon Valley was \$830,361, though in some neighborhoods it can be two or three times that.<sup>18</sup> In San Mateo County only 27 percent of first-time homebuyers can afford to buy a mid-priced home, compared to 74 percent nationally.<sup>19</sup> Unfortunately, renting isn't any easier. Silicon Valley rents have increased 27 percent since 2011 and are now 227 percent higher than the national average.<sup>20</sup> To afford a fair market price apartment in Silicon Valley, a renter would need a yearly income of \$94,251, which is 4.7 times the yearly income of a worker earning minimum wage in Silicon Valley.<sup>21</sup>

Rising housing costs are also having a ripple effect on local transportation. With more people moving to the area for jobs—and more middle-class and wage workers moving further away for affordable housing—comes more traffic, longer commutes, and increased pollution. Thirty percent of Silicon Valley workers now commute from another county, with drivers wasting approximately 78 hours in traffic delays each year.<sup>22</sup> Traffic is also overwhelming the region's already inadequate public transportation infrastructure. "It impacts the ability of service workers to get to their jobs or for low-income residents to access services via public transit or in their own cars," one nonprofit leader told us.

Hunger is yet another critical and often invisible issue: more than 30 percent of Silicon Valley public-school students accessed free or reduced-price lunches in the 2014–2015 school year, and a shocking one in three Silicon Valley children may not know where their next meal is coming from.<sup>23</sup> [See the **"In Their Own Words" sidebar on Second Harvest Food Bank** for more on this topic.] Meanwhile, equitable education opportunities are increasingly hard to come by in Silicon Valley, as is affordable higher education. The Valley's many under-resourced public-school systems are plagued by budget cuts, a teacher shortage, and persistent gaps in student performance. For a region known for its advanced degrees and highly educated population, the fact that 50 percent of third-grade students in San Mateo County are failing to meet grade-level reading requirements is alarming.<sup>24</sup>

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18 Massaro, R. (2016, February). 2016 Silicon Valley Index, 61. Joint Venture Silicon Valley.

19 Ibid., 58–64.

20 Ibid.; California's High Housing Costs: Causes and Consequences. (2015, March). Legislative Analyst's Office.

21 Massaro, R. (2016, February). 2016 Silicon Valley Index, 58–64. Joint Venture Silicon Valley.

22 Brown, P.S. Bay Area's Disjointed Public Transit Network Inspires a Call for Harmony. (2015, August). *The New York Times*. Retrieved from [http://www.nytimes.com/2015/08/02/us/bay-areas-disjointed-public-transit-network-inspires-a-call-for-harmony.html?\\_r=0](http://www.nytimes.com/2015/08/02/us/bay-areas-disjointed-public-transit-network-inspires-a-call-for-harmony.html?_r=0)

23 2014 Hunger Study: Hunger in Our Own Backyard. (2014). Second Harvest Food Bank of Santa Clara and San Mateo counties. Retrieved from <http://shfb.org/docs/advocacy/HungerStudy2014.pdf>

24 Students Meeting or Exceeding Grade-Level Standard English Language Arts, by Grade Level. (2015). Kidsdata.org. Retrieved from <http://www.kidsdata.org/region/4/san-mateo-county/summary#6/demographics>

## IN THEIR OWN WORDS: Kathy Jackson, CEO, Second Harvest Food Bank of Santa Clara and San Mateo Counties



“We know that cooking from scratch can be the cheapest, healthiest way to eat, which is why Second Harvest pairs nutrition education with the distribution of healthy and fresh food. But that only works when families have access to a kitchen.”

The local economy has had a serious impact on Second Harvest Food Bank and in ways that might surprise you. The number of people we serve increased dramatically during the Great Recession, but we had hoped and expected those numbers would drop as the economy rebounded. Instead, today we find ourselves serving more than a quarter of a million people monthly—a 10,000-per-month increase compared with just a year ago and more than we served at the height of the recession.

It's not hard to understand why. Rents have jumped more than 50 percent since 2010, with San Mateo County experiencing some of the steepest increases. As a result, we are seeing a number of demographic shifts, likely due to families leaving higher-priced communities and moving to less-expensive ones. For example, we are serving fewer people in San Mateo County and many more in Santa Clara County. Some clients are enduring punishing commutes to work one or even two jobs in Silicon Valley, complicating effective service delivery by the Food Bank and our distribution partners.

The high cost of rent is also creating what we call the “housed homeless,” with two or more families living in a small apartment or renting garages or single rooms. Often they have limited or no access to cooking facilities, which is challenging us to reassess how we serve them. We know that cooking from scratch can be the cheapest, healthiest way to eat, which is why Second Harvest pairs nutrition education with the distribution of healthy and fresh food. But that only works when families have access to a kitchen.

The economy is also affecting our fundraising, and again in ways different from what you might expect. During the recession, most people knew someone who had been hurt by the downturn, so hunger felt personal. Families' struggles to put food on the table were clearly understood, and we were able to raise the funds we needed to ensure that everyone in our community had access to nutritious food. But today, particularly here in Silicon Valley, many people assume everyone is back to work and doing great; unfortunately, that is just not the case. So we have more people seeking food from Second Harvest than ever before, juxtaposed against softening donations. We are genuinely concerned about how we will continue to address the rising need for food.

We also heard repeatedly during our conversations—not just with nonprofit leaders but with philanthropists, corporate and private foundation officers, and others—that Silicon Valley is becoming destabilized in subtler ways as well. The feeling of community that once bonded many of the region’s residents has begun to wither. As disparities deepen and displacements and population turnover increase, a shared sense of civic pride has begun to fade, as has the sense of local identity and local engagement. There is growing concern that the region’s “move fast and break things” mentality might accidentally be breaking something more essential—and that the imbalances set off by skyrocketing growth might soon become “wired in” to Silicon Valley, rationalized as an unfortunate but inevitable tradeoff for the region’s prosperity.

There is also a growing realization that local governments aren’t sufficiently addressing the region’s escalating challenges. Silicon Valley’s local government ecosystem is highly fragmented, with every one of the 60 local towns, cities, and unincorporated areas acting in uncoordinated ways. The lack of a more holistic strategy for the region is creating its own new problems, such as increasingly outdated and dysfunctional infrastructure and local policies that don’t map to current realities or to the fast pace of change. As Silicon Valley’s economy and population expand, these problems—the shortage of affordable housing or public transportation—threaten to grow worse. Even the region’s largest and most affluent city, San Jose, is plagued by a “public-private scarcity that stands in stark contrast to the region’s wealth and San Jose’s considerable affluence.”<sup>25</sup>

Due to all of these factors, both the nonprofit and philanthropic leaders we spoke with noted that the problems plaguing Silicon Valley right now feel more structural and more permanent than ever before. [See **Figure 2.2.**] Most believe that the region has reached a critical inflection point, and that how its leaders and citizens collectively respond will matter greatly to the region’s future. “This growth just keeps accelerating. We’re now adding jobs at a rate we haven’t seen in 15 years, and that’s powering everything else,” writes Russell Hancock, CEO of Joint Venture Silicon Valley. “But with growth comes challenges, and now we have to mobilize like never before.”<sup>26</sup>

Helping to lead that mobilization is Silicon Valley’s local network of nonprofits. Yet many of these community-based organizations face considerable challenges that threaten their ability to achieve impact and scale—including, in some cases, a failure to attract local philanthropy and the mind-share of local entrepreneurs that could help them gain traction on the region’s critical challenges.

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<sup>25</sup> Szambelan, S.J., & Brownstein, B. Back in the Black: A Fiscal Strategy for Investing in San Jose’s Future. [2016, March]. SPUR.

<sup>26</sup> Massaro, R. [2016, February]. 2016 Silicon Valley Index, 3. Joint Venture Silicon Valley.

Figure 2.2. Silicon Valley by the Numbers

**ECONOMIC**

**46%**  
Of all U.S. venture-capital funding

**26,093**  
Households with \$3M+ in investable assets

**29.5%**  
Of local population requiring public or private assistance

**17%**  
Workers paid under \$35,000 per year

**DEMOGRAPHIC**

**35%** Non-Hispanic White  
**26%** Hispanic & Latino  
**32%** Asian  
**4%** Multiple & Other  
**2%** Black or African-American

**67%**  
Of tech workers born outside of US

**14,907**  
People moved to Silicon Valley in 2015

**OTHER**

**78**  
Hours per year spent in traffic delays

**27%**  
Increase in local rents from 2011-2015

**\$830,000**  
Median home sale price in 2015

**45%**  
Of 8th graders scored below proficient on 2013 state algebra test

Sources: See Appendix: Methodology, State of Silicon Valley



# SECTION 3 CHALLENGES FACING COMMUNITY-BASED ORGANIZATIONS



Located in a traditionally working-poor and immigrant neighborhood in East San Jose, Somos Mayfair is a grassroots organization activating community leaders as peer mentors to foster early-school success and nurture family wellness.

TOP: Image © Google Earth

BOTTOM: Photo courtesy of Somos Mayfair

The so-called “social sector” plays a critical role in local economies and communities. In every community there are people and issues that fall through the cracks, and that’s where nonprofits come in. These institutions serve as the connective tissue of civil society, acting as a buffer between what’s happening in the markets—the economic boom and bust cycles—and what’s happening with local government funding and services. The highest performing nonprofits are able to combine the best of both worlds: providing for the common good, like government, while harnessing the entrepreneurialism of the private sector. They are a critical part of the larger Silicon Valley ecosystem, and the region would be less resilient without them. Here, we take a deeper look at the challenges facing community-based organizations that are delivering services and executing the difficult work of social change.

## NONPROFIT SECTOR OVERVIEW

Nonprofits are an important and often overlooked part of the state and local economy. California has 25,000 registered nonprofits operating with paid staff, and nonprofit revenues account for 15 percent of California’s gross state product.<sup>27</sup> With nearly 1 million employees, the sector is the fourth-largest industry in terms of employment, beating out both banking/finance and real estate.<sup>28</sup> Collectively, California nonprofits generate \$208 billion in annual statewide revenue and hold \$328 billion in assets, not including foundations—not bad for a sector that is often perceived as “invisible.”<sup>29</sup>

Within Silicon Valley, there are a total of 3,145 nonprofits with revenue greater than \$25,000, not including 1,146 foundations; the total number of nonprofits has grown by 28 percent in the last 10 years to 9,725 total. Of these, the vast majority (77 percent), report revenues under \$1 million, comprising the bulk of the community-based organizations.<sup>30</sup> As the numbers in **Figure 3.1** suggest, Silicon Valley’s local nonprofit sector comprises many organizations that are meeting important needs while operating on a very small scale. Their core services provide support to the most vulnerable populations in Silicon Valley—those being left behind in this new economy and whose particular characteristics make them hard to reach. Given the overwhelming demand for their services and their small size,

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Silicon Valley’s local nonprofit sector comprises many organizations that are meeting important needs while operating on a very small scale. Their core services provide support to the most vulnerable populations in Silicon Valley—those being left behind in this new economy and whose particular characteristics make them hard to reach.

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27 Deitrick, L., Durnford, J., Narwold, A., Galloway, F., & Schumann, M.J. (2014, August). Causes Count: The Economic Power of California’s Nonprofit Sector. California Association of Nonprofits.

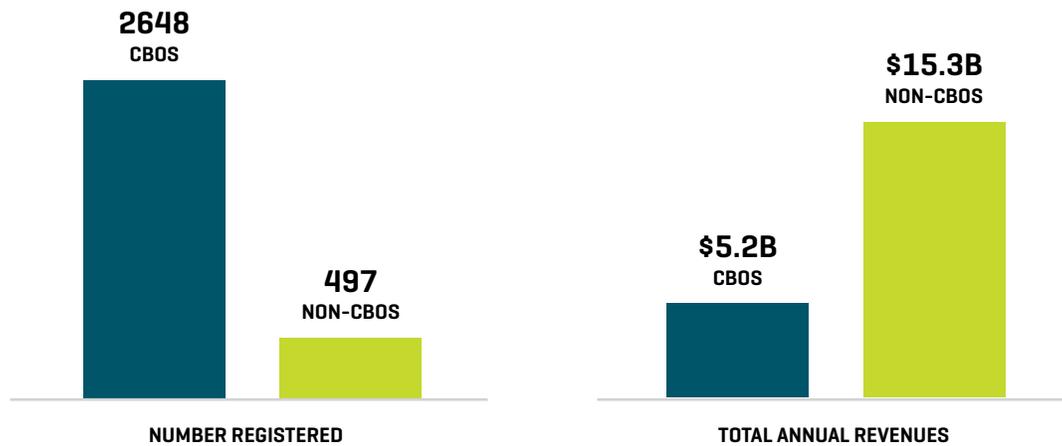
28 These numbers include nonprofit hospitals and higher-education institutions.

29 These figures do not include private grantmaking foundations that file IRS form 990-PF, religious organizations, and 554 public charities that filed but provided no financial data.

30 IRS Business Master File. (2015, December).

**Figure 3.1. Number and Revenue of SV's Active Public Charities by Geographic Focus**

SV community-based organizations (CBOs) comprise 84% of SV's nonprofits but only report 26% of total revenues



these organizations have limited capacity to spend time or resources on strategic advocacy for systemic change. Only a few of them—the 700 or so with budgets greater than \$1 million—have a level of capacity and financial stability that might allow them to begin playing a bigger role in the space.

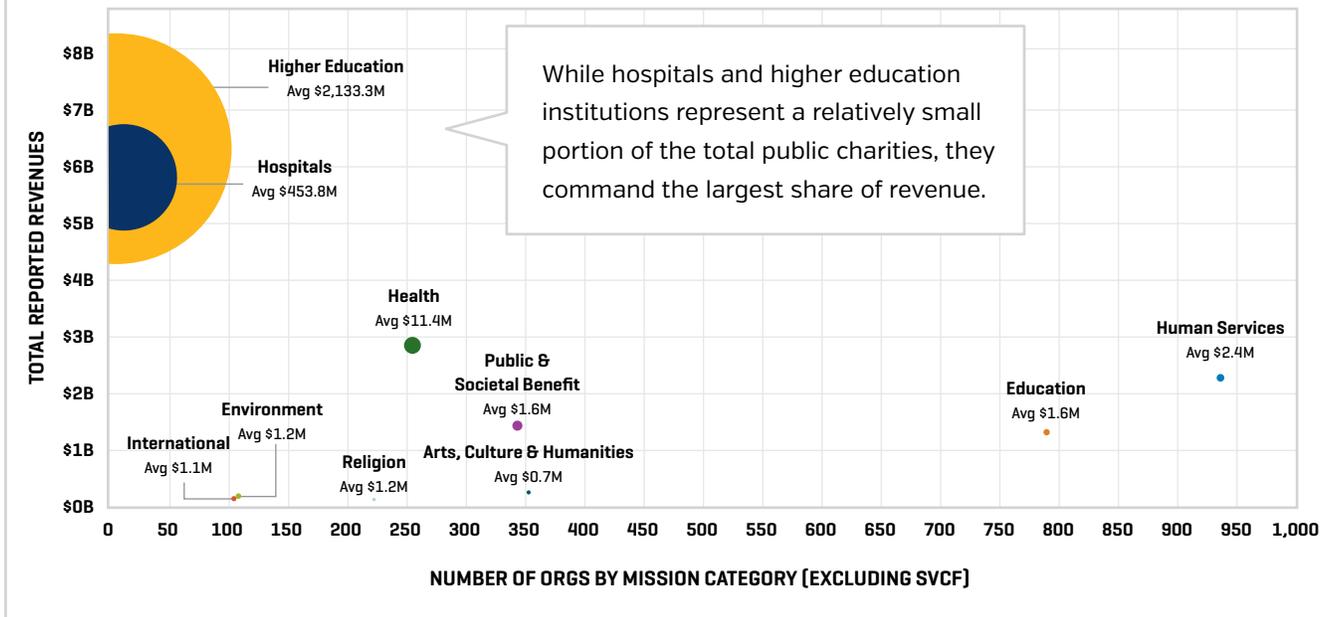
At the other extreme end of this spectrum, 46 Silicon Valley nonprofits report revenues of more than \$50 million. Not surprisingly, this cohort comprises large institutions like Stanford University, local medical centers and hospitals, and other well-known entities such as SRI International. These larger organizations are quite different from community-based organizations focused on meeting local needs. While some do serve a local population (e.g., through healthcare delivery or education), many are national or global organizations headquartered in Silicon Valley, much the way Facebook and Apple are global companies based locally. For the purposes of our research, we were less interested in these larger institutions; they have significant scale, attract strong resources to support their ongoing operations, and often serve global constituents. Their mission isn't necessarily to address local challenges in Silicon Valley.

As **Figure 3.2** shows, a little under a third of Silicon Valley nonprofits provide human services, and about a quarter focus on education. However, the number of nonprofits focusing on an issue often does not correlate to the amount of resources being invested in that issue. For example, while 30 percent of the Valley's active nonprofits focus on human services, collectively they generate just 10 percent of the sector's revenues.<sup>31</sup> Colleges and universities make up less than 1 percent of the sector but report 28 percent of nonprofit revenues. When we

31 IRS Business Master File (2015, December).

**Figure 3.2. Number and Revenue of SV’s Active Public Charities by Mission Area, 2015**

3,145 Active Public Charities Reported Revenues of \$20.5B



look specifically at Silicon Valley community-based organizations, the disparities are even more striking: hospitals make up just 0.3 percent of the number of organizations but collect more than 30 percent of revenues.<sup>32</sup> In fact, when we looked at the community-based organizations receiving the most philanthropic donations, private schools and hospitals in high-income areas topped the list. Not surprisingly, scale begets scale: the nonprofits with larger budgets, ample staff, robust fundraising teams, established brands, and powerful social networks capture the lion’s share of local philanthropic funding. Smaller community-based organizations are left to make do as they can.

As noted in the previous section, however, structural economic shifts, rising income inequality, and the “downsides” of rapid growth are creating new needs among Silicon Valley’s diverse residents. Consequently, community-based organizations are experiencing significant increases in demand for their services. According to survey we fielded, eighty percent of community-based nonprofits in San Mateo and Santa Clara counties report increased demand in the last five years, and more than 50 percent say they are falling short of meeting that demand. More than 54 percent have a waitlist for their services. In addition many of these nonprofits serve populations that are at-risk: low-income residents, immigrant communities, the disabled, and others. Nearly 60 percent of the 120 nonprofits said they specifically serve non-white populations.<sup>33</sup>

32 IRS Business Master File (2015, December).

33 See Appendix: Methodology, State of Nonprofits.

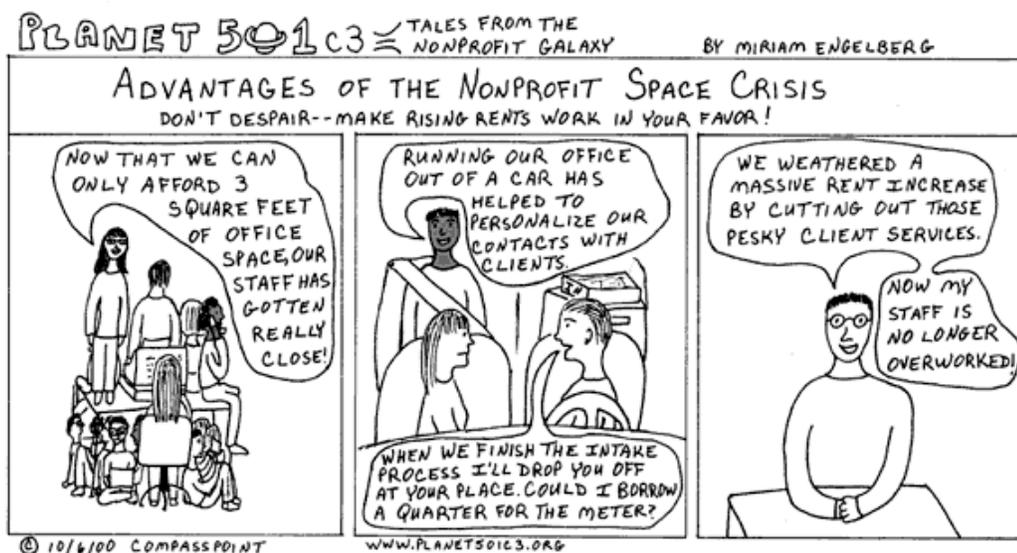
Spikes in demand can be difficult for small to medium-size nonprofits to handle in the best of circumstances. However, for reasons explored below, Silicon Valley nonprofits are faring worse, financially, than their counterparts in other parts of the state or nation. Looking across several surveys of nonprofits in the region between 2013 and 2015, more than 30 percent of Silicon Valley nonprofits were running deficits above the state and national average. Another survey showed 47 percent had less than three months of operating cash on hand, putting them in a precarious financial situation.<sup>34</sup>

## KEY CHALLENGES

What accounts for this financial instability? For one, Silicon Valley nonprofits are being adversely affected by the same trends that are driving higher demand for their services, which is wreaking havoc on already bare-bones business models. Broadly speaking, local nonprofit leaders described a current operating environment that is one of the most challenging they've ever experienced. Below, we highlight the biggest operational issues facing Silicon Valley nonprofits at this moment, supported by their own words. [See **Figure 3.3** for statistics on key challenges faced by nonprofits.]

### Operating Costs Are Rising

Exorbitant commercial real estate costs are hitting nonprofits hard. Many are losing their leases, as building owners seek higher rents from tech companies that are willing and able to pay. Across Silicon Valley it is becoming more difficult to find affordable space, and with high rents eating up more of their budgets, many



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<sup>34</sup> See Appendix: Methodology, State of Nonprofits.

nonprofits are feeling constrained. “The cost of space makes it hard for our program to increase in size because we can’t fit more people into our existing space,” one nonprofit leader told us. “We have been evicted and will be evicted again,” said another. “We wanted to find a space that could house our whole immigration program, but it is not realistic because the cost is so high.” These rent issues take up energy these leaders would rather be directing toward their programs and make crafting new strategies difficult. Said one leader, “It’s hard to plan for the future in a red-hot real estate market.”

Yet relocating outside Silicon Valley can have a profoundly negative impact on a nonprofit’s ability to deliver services to local residents—often their very reason for being. Christa Gannon, founder and CEO of Fresh Lifelines for Youth (FLY), a Silicon Valley-based nonprofit that focuses on preventing juvenile crime and incarceration, reflected on this reality: “Not being located in the same area code as our kids compromises the quality of work we do. If our staff can’t afford to live in the same area as the people that we serve, and our offices are located elsewhere, we can’t respond to the needs of our kids in a timely fashion.”

To make matters worse, these nonprofits are also competing for talent in one of the tightest labor markets in the world. Despite rising needs and an increase in the number of Silicon Valley nonprofits, employment in the local nonprofit sector has decreased by 13.2 percent since 2007—in part because salaries are typically far out of step with the local cost of living.<sup>35</sup> “Paying people a Silicon Valley ‘living wage’ is challenging, and the rising cost of housing and longer commutes have made it harder to find qualified staff,” said one nonprofit leader. Added another: “We are finding it extremely difficult to pay our staff a wage that will allow them to live where they work. Some employees end up having to live in the outer regions of the Bay Area. Eventually the commute gets to them, and we lose them.” Many nonprofits see their staff leaving for better-paying private sector jobs. “Housing, transportation costs, and the relatively low salaries versus for-profit businesses makes it very hard to carry a staff turnover rate of less than 40 percent,” one leader told us.

In other words the cost of living and working in Silicon Valley is becoming prohibitive, putting many nonprofits in an increasingly untenable position. “To cover our general

### Figure 3.3. Key Statistics on Nonprofit Health

Survey responses from 130 community-based organizations in San Mateo and Santa Clara counties to Open Impact, April 2016.

**80%**

Of nonprofits report an increase in demand for services over the past 5 years

**74%**

Don’t have access to high-net-worth-donor networks, significantly hindering their outreach

**51%**

Say they will not be able to meet demand for services this year

**46.3%**

Say doing business in Silicon Valley is hard

**52.6%**

Have carried a deficit for at least one year in the past five years

**63%**

Say it’s hard to find donors willing to cover full costs

**95.6%**

Of nonprofits have at least one donor that requires impact-data reporting

**26.7%**

Report that the data collection their funders ask for is significantly useful to their organization

35 Massaro, R. (2016, February). 2016 Silicon Valley Index, 86. Joint Venture Silicon Valley.

operating budget, we have had to produce more than we are capable of supporting, all of which has done damage to our reputation and to the quality of our working environment,” said one leader. “Housing costs and the associated insecurity, anxiety, and displacement associated with these costs are huge challenges for families and staff alike,” reasoned another. “It’s challenging to have open and creative thinking, and take appropriate risk when people are afraid and lack a sense of belonging in their own community.”

## Government Outsourcing Adds to Demand

Local governments often outsource the delivery of social services—such as homeless shelters, mental health services, and food programs—to nonprofits, but often without adequate compensation. Government funding is complex, and nonprofit leaders often juggle multiple streams of funding from local, municipal, county, and state government. Additionally, many of the issues these nonprofits address are regional in nature and require navigating fragmented and complex policy jurisdictions. And the cost of having to collect data to report back to the government (and other funders) often isn’t covered by their grants. “Nonprofits are being tasked with ever-greater levels of compliance assurance, data collection, and performance measurement without being provided financial resources to execute these important tasks,” noted one nonprofit leader.<sup>36</sup> Added another, “Government has never kept pace with costs, consistently underfunds overhead, and constantly adds expensive and wasteful processes to their contracting and grants.”

## Competition and Fragmentation Are Increasing

While philanthropic giving is increasing overall, and the number of local nonprofits receiving these funds is also on the rise, the *proportion* of funding allocated to these community-based organizations has not increased in the past decade. This trend has led to a more competitive and complicated funding landscape. As noted earlier, the number of registered Silicon Valley nonprofits increased nearly 30 percent in the last decade. It’s an unfortunate reality that many donors and social entrepreneurs prefer to start new organizations rather than join established organizations that may be perceived as too bureaucratic or not innovative enough. As a result, the conventional wisdom among local nonprofit leaders is that there are more organizations competing for what seems to be a fixed philanthropic pie. Said one leader: “We’re competing for the same funds as every other nonprofit out there.”

Meanwhile, the addition of new, mostly small nonprofits into this challenging landscape creates even more fragmentation, making it more difficult to create the alignment needed for the sector to devise solutions to some of the region’s larger systemic problems. It also creates an increasingly complicated and noisy

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<sup>36</sup> Open response to survey of nonprofits in San Mateo and Santa Clara counties fielded by Open Impact. [2016].

ecosystem that makes it harder for funders to navigate and determine which organizations to support—an issue we explore later in this report.

## Capacity Constraints

Most Silicon Valley nonprofits are running on tight budgets and meager staff rosters. While being a “lean startup” can have its advantages, it can also come with significant disadvantages, especially if the organization is operating in a high-cost and high-need environment. Identifying and onboarding new staff can be unaffordable for an organization that is struggling to pay rent—even if having more hands on deck would boost its ability to meet community needs. “Not being able to hire means we’re in a capacity rut,” said one nonprofit leader. “Having only one full-time staffer keeping up with basic administration and existing programs is difficult enough, but raising more funds, measuring and communicating impact, and recruiting and managing volunteers is challenging without adequate infrastructure,” said another.

While not an issue unique to the Silicon Valley social sector, the tendency of funders to give grants for programs rather than for “capacity building”—e.g., staff, infrastructure, training—can jeopardize the delivery of these programs. Though the nonprofit “overhead myth” is now being widely challenged, many donors still negatively judge nonprofits based on the amount of funding going to support the organization (i.e. “overhead”), as opposed to program or service delivery. This is a double standard that many investors would never apply to their own businesses, where they readily accept the need to fund staff, systems, and infrastructure. This is where the irrationality of social capital markets catches up to local nonprofits’ ability to do their jobs: “We need committed funders who understand the importance of scaffolding organizational growth and development,” said one nonprofit leader. Added another, “Many funders are interested in new programs and how we will replace their one-time funding, rather than in sustaining a base that would enable us to grow to meet demand.”

The desire to grow in order to meet demand came up repeatedly in our conversations with local nonprofit leaders. Said one: “We’ve grown 25 percent in the people we serve in the last five years. But institutional support has not grown to keep pace, and we now derive 75 percent of our budget from earned income. It’s likely that we are pretty much maxed out on earned income, so further growth will require new sources of donated income.” Added another: “Limited funds and capacity have put a strain on our agency, and I’m not sure how long we can keep everything running at such high levels of service delivery.”

Though it’s a seeming catch-22, fundraising can also be a capacity challenge. Many nonprofits report being so busy delivering services and keeping the lights on that they haven’t had enough time to focus on fundraising, let alone figure out how to engage new donors. Ironically, shifting their focus to fundraising might bring in more resources to hire staff and build capacity. Given donor reluctance to fund “overhead,” however, it’s hard for some nonprofits to take that first step. “We

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While not an issue unique to the Silicon Valley social sector, the tendency of funders to give grants for programs rather than for “capacity building”—e.g., staff, infrastructure, training—can jeopardize the delivery of these programs.

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are a small organization, and when our focus has to be on fundraising, it limits our ability to do program work,” said one nonprofit leader. Many have lost funders only to find themselves scrambling to identify partners to fill those gaps. “We have had difficulty retaining some of our biggest and most reliable donors,” one leader said. “Finding staff and time to be proactive, network, follow up, and engage them is difficult.” New donors of any kind often require high levels of engagement that these organizations lack the staff to maintain.

## A DISCONNECTED ECOSYSTEM

As these challenges suggest, Silicon Valley has an increasingly complicated nonprofit ecosystem where it feels as if the whole is actually less than—not greater than—the sum of its parts. Local nonprofit leaders are frustrated by not having the time, the capabilities, or the funding to innovate their strategies in ways that would help them respond to rising needs for their services and achieve greater impact. We heard it time and again from these nonprofit leaders: “We’re just not sure how to scale.”

It’s somewhat ironic that in a region known for its enormous business growth and proliferating tech “unicorns,” the nonprofit sector is struggling mightily. These nonprofits are constrained by larger forces at work that make it exceedingly difficult for them to do their jobs. As we outlined here, the lack of adequate capital and the lack of sustainable business models for those serving the most vulnerable present fundamental constraints. Couple this with rising demand, rising operating costs, and significant capacity limitations, and you have a perfect storm of challenges facing Silicon Valley nonprofits. [See the **“In Their Own Words” sidebar about Somos Mayfair** for insight into one nonprofit’s experience.]

To complicate matters further, the vast majority of local nonprofits feel disconnected from one of the largest potential funding sources active within the region: the new tech companies and entrepreneurs that are directing great portions of their wealth into philanthropy. The challenge of reaching new donors is exacerbated by the fact that Silicon Valley’s new philanthropists don’t always behave the way traditional philanthropists do—and because most nonprofit leaders are not familiar with the emerging “giving code” that drives their choices. “We would like to engage the tech sector but we’re finding it very difficult,” one nonprofit leader confessed. They don’t know how—or don’t have the capacity—to make the case for local investment and systems change. Yet understanding this emerging giving code—and even helping to shape it—might unlock funds that could begin to transform the region for the better.

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## IN THEIR OWN WORDS: Camille Llanes-Fontanilla, Executive Director, Somos Mayfair



“It is my experience that when donors take time to get to know smaller community-based organizations to better understand our work, they discover the value we bring, in very tangible ways, to children and families living right here in Silicon Valley.”

### *Small and Valuable*

The people in most need of nonprofit programs are often the individuals who are the hardest to reach. As the Executive Director of Somos Mayfair, a grassroots, place-based nonprofit in East San Jose, I have seen countless examples of how there is a disconnect between people in need of support and our local nonprofit sector. And I have experienced it myself. I was born and raised in East San Jose, spending my formative years in the Mayfair neighborhood where my own family has been devastated by poor health, limited educational opportunities, and immigration detention—all common issues in Mayfair.

My organization serves homeless families who cannot join nonprofit programs because they don't have an address. We serve recent immigrant arrivals who fled violence and corruption and don't trust institutions. We serve families who cannot access resources because of language barriers, documentation status, income guidelines, cultural norms, and limited transportation. It is for these reasons that many small community-based organizations exist—to address the needs of very specific populations, immigrants, monolingual speakers, ethnic groups, and disenfranchised neighborhoods.

Somos Mayfair, along with our sister organizations—African American Community Services Agency (AACSA), International Children's Assistance Network (iCAN), and Services, Immigrant Rights, and Education Network (SIREN)—to name a few—provide culturally relevant, accessible programs for specific populations. Many were developed “for us and by us,” giving us the credibility to build trust, as we have the same lived experiences, cultural understanding, and language as

the people we serve. At Somos Mayfair we are able to meet clients where they are, address their immediate needs, and develop their leadership so that they can become agents of change in our community.

However, the realities of deepening and growing our work are often in tension with the needs of donors. While our organizations value many of the same things as donors—impact, innovation, and connection—it is difficult for us to secure resources and develop the required infrastructure to support these things. As community-based organizations embedded in our communities, we are limited in our ability to make connections beyond our own networks and are not on the radar of foundations, corporations, high-net-worth donors, and potential board members. Without this broader support, it is difficult for us to secure flexible capital that allows us to invest in marketing, fund development, human resources, evaluation, facilities, and volunteer management. The grants we secure are mostly restricted to programs, not allowing us to build out the infrastructure needed to fully measure, grow, and scale our work.

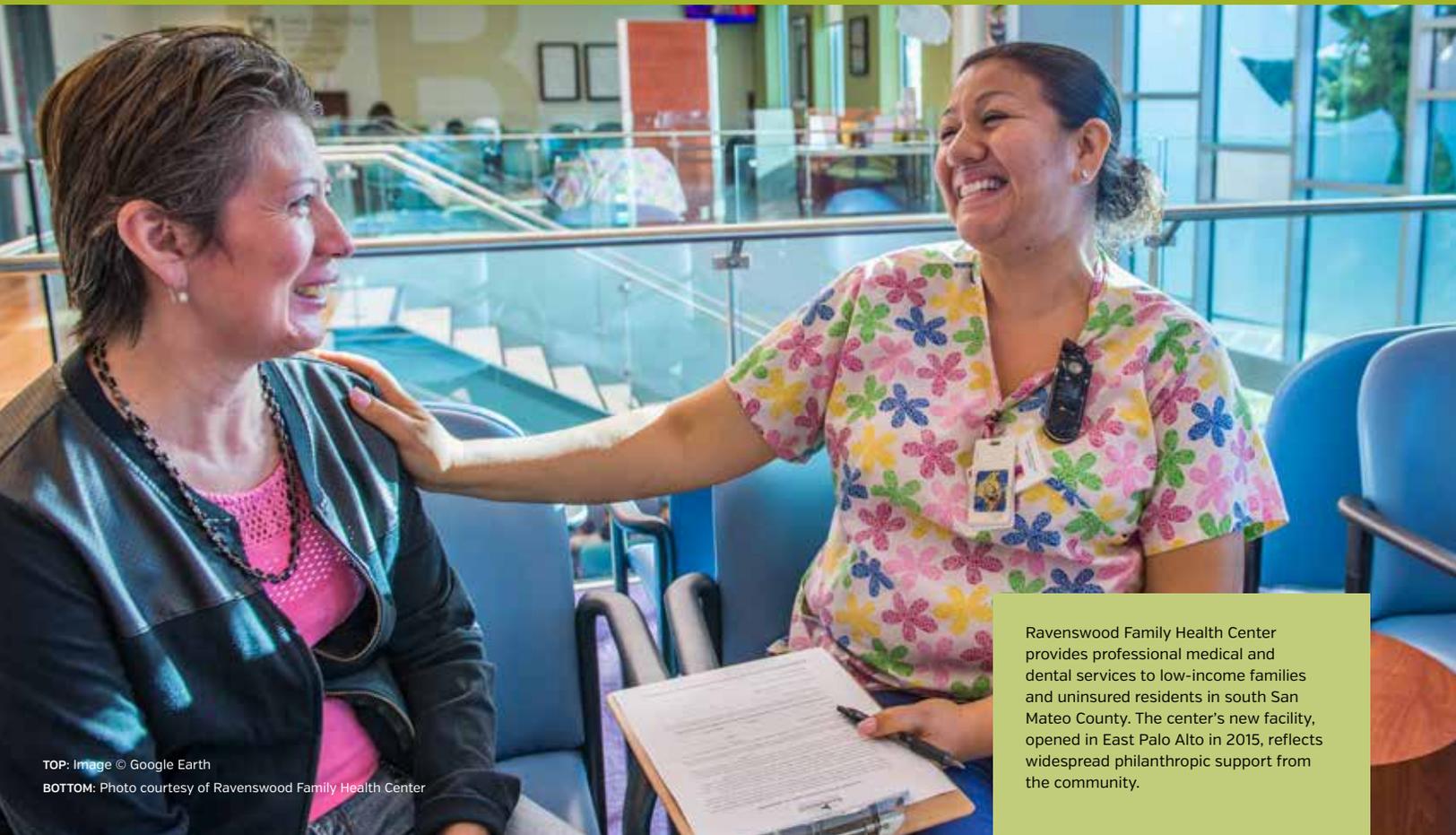
It is my experience that when donors take time to get to know smaller community-based organizations to better understand our work, they discover the value we bring, in very tangible ways, to children and families living right here in Silicon Valley.



SECTION

4

# SILICON VALLEY'S NEW PHILANTHROPY



Ravenswood Family Health Center provides professional medical and dental services to low-income families and uninsured residents in south San Mateo County. The center's new facility, opened in East Palo Alto in 2015, reflects widespread philanthropic support from the community.

It is hard to say which is more remarkable: the amount of wealth being generated by Silicon Valley's tech sector or the increasingly large amount of that wealth being put toward philanthropy. Over the last decade, Silicon Valley's rising prosperity has sparked an unprecedented wave of giving among local corporations, private foundations, and newly wealthy individuals—some of it on a truly momentous scale.

Mark Zuckerberg—who is quickly becoming as famous for his philanthropy as he is for cofounding Facebook—set the bar high, earmarking \$500 million for giving in 2012, and another \$1 billion in 2013. Then in 2015 he and his wife Dr. Priscilla Chan made a public pledge to direct \$45 billion over their lifetimes to address large-scale social issues. In 2014 WhatsApp founder and CEO Jan Koum set aside \$556 million for philanthropy, and Nicolas Woodman, founder and CEO of GoPro, contributed \$500 million in stock to a charitable savings account, otherwise known as a donor-advised fund (DAF). That same year, entrepreneur Sean Parker, of Napster and Facebook fame, directed \$550 million toward philanthropy. In early 2016, Netflix CEO Reid Hastings announced a \$100 million philanthropic education fund. A number of these billionaires have signed the “Giving Pledge,” committing to give away the majority of their fortunes in their lifetimes. Like Bill Gates before them, these and other leading entrepreneurs are both setting and meeting the expectation that “tech gives back” in ways that are tremendous.

And it's not just Silicon Valley's ultra-wealthy billionaires who are putting large sums of their new fortunes toward philanthropy. These trailblazers are being joined by thousands of Millennial entrepreneurs—along with successful Gen-Xers and Baby Boomers—who have millions rather than billions but are no less intent on using their earnings for the greater good. Facebook's high-profile Initial Public Offering (IPO) in 2012 created approximately 900 new millionaires—many of whom will no doubt make a mark through their giving.<sup>37</sup> And that is just one IPO. In Silicon Valley, individual giving by itemizing households increased 114 percent in the five years between 2008 and 2013 to 3.7 percent of assets, significantly higher than the 2.17 percent seen nationally (see **Figure 4.1**).<sup>38</sup> It's hard not to wonder what that giving rate will climb to as more philanthropists come “online.” Corporate giving is also on the rise, driven by both increasing profits and the region's growing culture of giving. Meanwhile, the number of private foundations in Silicon Valley with more than \$10 million in assets has doubled since 2000, with 28 percent of them founded in the last 10 years (see **Figure 4.2**).

All of this new wealth—paired with the impulse to direct much of it toward charitable causes—is both exciting and daunting for Silicon Valley's entrepreneurs. Many of them never expected to be so wealthy, so soon. Thousands are still in their 20s and 30s; they've gone from living with roommates in cramped

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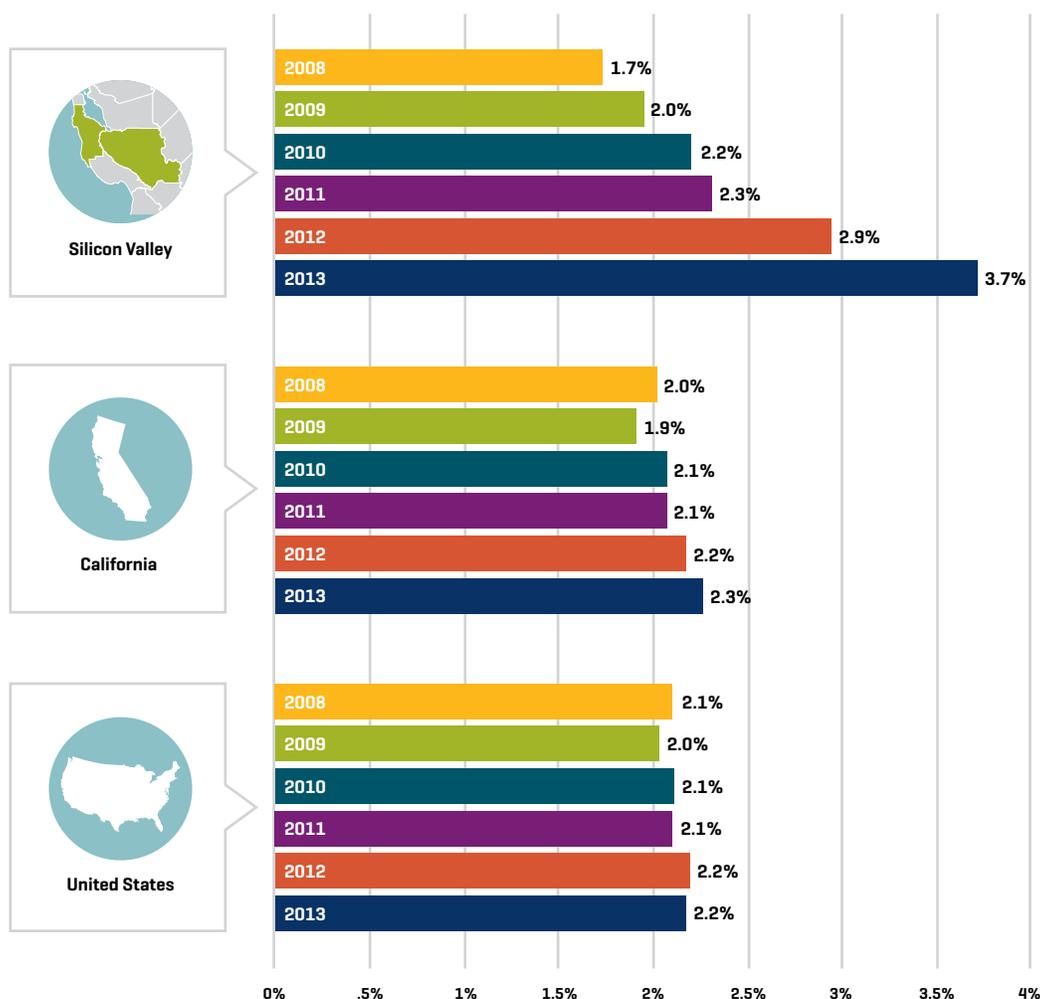
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37 Evangelista, B. [2013, January]. Facebook IPO Will Create Billionaires. SFGate.com.

38 Charitable contributions as a percentage of adjusted gross income based on IRS Statement of Income Tax Statistics by county. See Appendix: Methodology, Individual Giving in Silicon Valley.

**Figure 4.1. Growth in Giving in SV Outpaces California and US**  
Charitable Giving as % of Adjusted Gross Income, 2008–2013

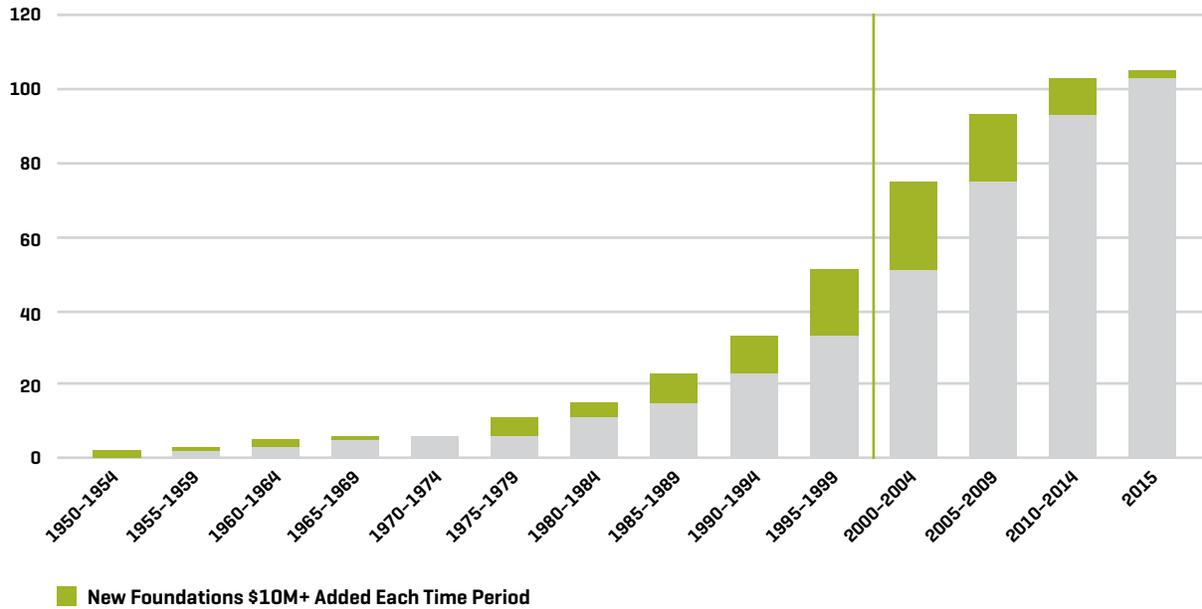


Source: IRS Statement of Income Datasets, 2008-2013 Giving USA/*Chronicle of Philanthropy* "How America Gives" Methodology. [Itemized Contributions as % of AGI. Approximately 80% of donations by individuals in US made by itemizers]

apartments to being able to afford five-bedroom homes in expensive neighborhoods overnight. Many had no financial advisors before earning their wealth or any prior experience with managing large amounts of money. Quite a few remain involved in running the companies they started, have young families, and are at the peak of their careers. And some are still trying to reconcile the impulse to safeguard against future misfortune by saving versus giving away their fortunes.

But what we are seeing, anecdotally and through the numbers, is that many are choosing to start their giving journeys sooner rather than later. Whereas previous generations often viewed philanthropy as an "encore career" or something to do

**Figure 4.2. Growth in Silicon Valley Private Foundations by Year Established**  
The number of private foundations with >\$10M in assets has doubled since 2000



in retirement, this new generation of Silicon Valley donors is opting to embrace philanthropy as a focus much earlier. One recent study found that wealthy individuals under age 40 report giving (or earmarking) a considerably higher percentage of their assets for philanthropy than their older counterparts.<sup>39</sup>

While some might suppose that giving away money is easy, becoming an effective philanthropist involves a lot of work. Corporations, foundations, and individuals alike must figure out what portion of their wealth to give away, and to what types of causes and organizations they will give. They need time to identify their interests and approach to giving, understand the language and frameworks of social change, and get more connected to nonprofits. The philanthropic journey is a long, winding, and sometimes bumpy road. One of the first decisions that a donor needs to make—typically with an advisor’s input—is which philanthropic vehicle to use to maximize their tax benefit and give them flexibility in their giving approach. The harder decisions are what areas of giving to focus on and which specific organizations to give to—more strategic concerns that can take a longer time to figure out.

39 Trends in Philanthropy: How and Why the Wealthy Give. (2016, March). SEI Private Wealth Management.

## GROWING VEHICLES FOR GIVING

As it happens, there are a number of options for which financial vehicle to use. Just as wealth is expanding in Silicon Valley, so too are the philanthropic vehicles available to organize and manage one's giving. Both regionally and nationally, relatively new vehicles such as giving circles, donor-advised funds, and impact investing are gaining considerable traction and changing the shape of the philanthropic landscape in the process. In Silicon Valley, new donors often opt to use multiple vehicles for their philanthropy—which is akin to having more than one financial account, each with its own advantages.

While having more—and more sophisticated—pathways for giving is enabling this new wave of philanthropists to customize their approaches, it also makes it difficult to hold the larger picture of Silicon Valley's philanthropy within one frame. And it's the main reason that finding data for this report was so challenging: the field is increasingly complex and fragmented, and the structure of newer giving vehicles makes it easier for donors to give anonymously.

To uncover more about which vehicles were being selected and why, we took a look at studies on national trends, as well as new and existing data, including our own interviews with wealth advisors and high-net-worth individuals. Ultimately, we saw several vehicles clearly emerging as primary pathways for Silicon Valley giving. We highlight several of these below.

### Private Foundations

Private foundations, which are typically built on funds derived from an individual or family, are proliferating in Silicon Valley. The number of private foundations based in these counties increased 47 percent between 2005 and 2015, more than twice the growth rate in California or in the United States as a whole. There were 72 percent more Silicon Valley-based private foundations with more than \$10 million in assets in 2015 than a decade earlier, and the total combined assets held by all Silicon Valley private foundations grew 80 percent during that same period.<sup>40</sup> The result? As of 2015 there are now a total of 1,146 private foundations in San Mateo and Santa Clara counties, with combined assets of \$31.6 billion.

Many of these foundations are sizeable. Three of the top 10 largest private foundations in the country are based in Silicon Valley: The William and Flora Hewlett Foundation, The David and Lucile Packard Foundation, and the Gordon and Betty Moore Foundation, with combined assets totaling nearly \$23 billion as of early 2016.<sup>41</sup> These three also provide significant support to community-based organizations in Silicon Valley. As **Figure 4.3** illustrates, the top 10 givers for community-based organizations collectively gave over \$275 million between 2010-2013, with Silicon Valley Community Foundation, The David and Lucile

#### PATHWAY FOR GIVING

### PRIVATE FOUNDATIONS

*Private foundations, which are typically built on funds derived from an individual or family, are proliferating in Silicon Valley.*

<sup>40</sup> Source: Foundation Directory Online and Foundation Maps, Foundation Center.

<sup>41</sup> Assets stated on foundation websites.

**Figure 4.3. Foundations Headquartered in SV Granting Most to SV Nonprofits, 2010–2013**

| Leading Givers to CBOs<br>[Locally-Focused Organizations] | Leading Givers to NonCBOs<br>[Locally-Based but with Larger Missions] |
|---|---|
| SILICON VALLEY COMMUNITY FOUNDATION                       | SILICON VALLEY COMMUNITY FOUNDATION                                   |
| THE DAVID AND LUCILE PACKARD FOUNDATION                   | THE SKOLL FOUNDATION  |
| SOBRATO FAMILY FOUNDATION                                 | THE DAVID AND LUCILE PACKARD FOUNDATION                               |
| THE GROVE FOUNDATION                                      | GORDON AND BETTY MOORE FOUNDATION                                     |
| THE WILLIAM AND FLORA HEWLETT FOUNDATION                  | THE WILLIAM AND FLORA HEWLETT FOUNDATION                              |
| THE APPLIED MATERIALS FOUNDATION                          | TOSA FOUNDATION   |
| GORDON AND BETTY MOORE FOUNDATION                         | ENLIGHT FOUNDATION  |
| JAMES AND REBECCA MORGAN FAMILY FOUNDATION                | JAMES AND REBECCA MORGAN FAMILY FOUNDATION                            |
| TOSA FOUNDATION   | OMIDYAR NETWORK FUND, INC.  |
| THE PACKARD HUMANITIES INSTITUTE                          | THE THOMAS AND STACEY SIEBEL FOUNDATION                               |
| THE JOHN AND LISA PRITZKER FAMILY FUND                    | THE HEISING-SIMONS FOUNDATION   |

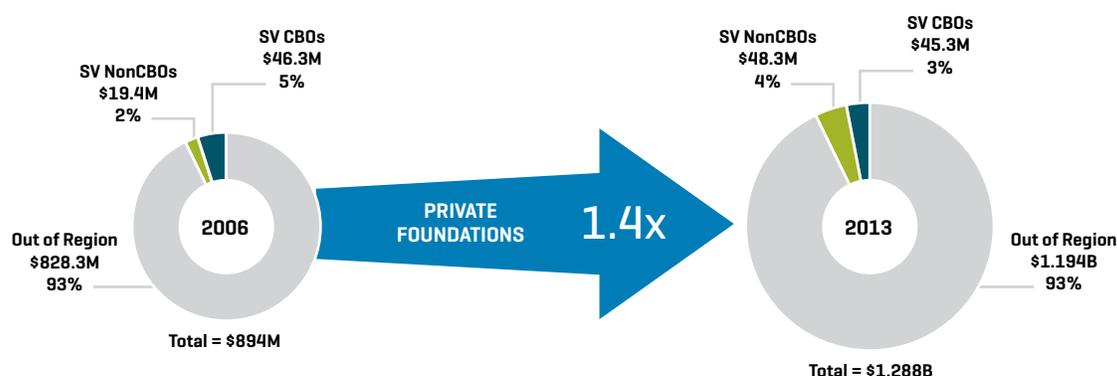
Packard Foundation, and Sobrato Family Foundation giving the most. The top givers to non-community based organizations (nonprofits based locally serving populations or needs outside the region), gave \$256 million between 2010-2013, with the top four giving the most: Silicon Valley Community Foundation, The Skoll Foundation, The David and Lucile Packard Foundation, and the Gordon and Betty Moore Foundation.

Private family foundations allow donors to grow their funds through investment and allocate those funds over time, with public reporting disclosures that include a list of their grants and key financial information made available through their 990 tax filing. Importantly, many of the new private family foundations in Silicon Valley are being led by their founding donors and their families, rather than established upon death and managed by future generations and professional staff. A recent national study of foundations by the National Center for Family Philanthropy shows that more foundations are being defined and led by the original donor than ever before in history.<sup>42</sup> This new generation of private family foundations is also spending higher percentages of assets than older foundations—significantly more than the roughly 5 percent required under US tax law.

<sup>42</sup> Boris, E.T., De Vita, C.J., & Goddy, M. [2015, November]. 2015 Trends Study: Results of the First National Benchmark Survey of Family Foundations. National Center for Family Philanthropy.

In terms of local giving, in both 2006 and 2013 seven percent of all giving by Silicon Valley private foundations was directed to SV-based nonprofits (see **Figure 4.4**). In 2006 \$66 million was directed toward these local organizations, versus \$828 million to organizations outside the local area. In 2013 it was \$94 million and \$1.2 billion, respectively. Interestingly, within that seven percent there has been a shift away from donating to community-based organizations and toward other kinds of larger nonprofits. In 2006 five percent of that seven percent, or \$46.3 million, was directed toward community-based organizations. In 2013 it was down to three percent, or \$45.3 million. The bottom line: the vast majority of Silicon Valley foundation philanthropy goes to larger nonprofits, or national or global causes, rather than local community-based organizations.

**Figure 4.4. Growth in Giving by SV-Based Private Foundations, Including Where the Money Goes, 2006–2013**



## Donor-Advised Funds

In the last decade, donor-advised funds (DAFs) have become another giving vehicle of choice for a growing number of new philanthropists—not just in Silicon Valley but around the nation. DAFs are a form of a charitable savings account and help separate a donor's tax decisions from their giving decisions. A donor can contribute a variety of assets to their fund as frequently as they like and then recommend grants to their favorite nonprofits when they are ready to give. Donor-advised funds are established at a sponsoring organization—a public charity such as a community foundation or a charity with a national grantmaking mission. Technically the sponsoring organization owns the fund's assets, and the donor recommends or advises grants from their fund to nonprofits of their choosing.

Contributions to donor-advised funds have grown at a record-setting pace over the last decade, due to their unique advantages. Donors to DAFs and other public charities are eligible for optimal tax deductions; DAFs also provide easy online tools to make gifts, regular reporting, and the option of privacy, which is important

### PATHWAY FOR GIVING

## DONOR-ADVISED FUNDS

*In the last decade, donor-advised funds (DAFs) have become another giving vehicle of choice for a growing number of new philanthropists—not just in Silicon Valley but around the nation.*

to many of these families. Like foundations, the assets of DAFs are invested, which can lead to growth over time. Donors also have the flexibility to recommend investments for their DAFs quickly and responsively—all features that make them particularly appealing to new donors.

Silicon Valley Community Foundation (SVCF) is a significant holder of donor-advised funds and has been particularly successful at establishing larger-scale DAFs for tech entrepreneurs in the region, driving total assets under management to \$7.3 billion in 2015.<sup>43</sup> In 2015 they reported \$75.4 million in donor-advised fund grants going to Santa Clara and San Mateo county nonprofits.<sup>44</sup> In **Figure 4.3** (using data from 2010–2013) SVCF is listed as the top donor to local community-based organizations and other nonprofits in these two counties; this data is aggregated and includes all DAF donations, discretionary grants, and any other sources of funding.

While donor-advised funds were historically the domain of community foundations, the national market is now dominated by charities founded by financial services providers and wealth management firms—such as Schwab and Fidelity—seeking to provide an efficient philanthropic solution for their high-net-worth clients. Assets held by national DAFs founded by these firms grew twice as fast as those in DAFs at community foundations. And collectively, charitable assets in all national DAF accounts grew 110 percent from 2010 to 2014, totaling \$70.7 billion.<sup>45</sup>

Data shared exclusively for this study by the two largest national charities with donor-advised fund programs—Fidelity Charitable and Schwab Charitable—shows that growth in these funds in Silicon Valley has been extraordinary. Collectively, these two charities alone now hold more than 4,500 DAFs among clients located in San Mateo and Santa Clara counties—292 percent more than they did in 2005. Together, these DAFs have more than \$2.2 billion in assets, a 946 percent increase since 2005. Among these funds of local donors are several valued at hundreds of millions of dollars. Though the vast majority of DAFs are much smaller than these anomalies, average DAF size has risen 167 percent since 2005 to about \$490,000 (see **Figure 4.5**).<sup>46</sup>

So how much money is distributed to local nonprofits from these DAFs at Schwab Charitable and Fidelity Charitable? Total grants in 2015 from their combined DAFs funded by donors based in San Mateo and Santa Clara counties totaled \$432 million, with nearly \$91 million, or 21 percent of all distributions, staying in the two counties (see **Figure 4.6**). Of that, nearly \$61 million was distributed to community-based organizations, with top issues including education, human services, and religious causes. “By making charitable giving a more integrated part of the financial and wealth management process for our clients, we have

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43 2015 Year in Review: Possibilities Start Here. Silicon Valley Community Foundation.

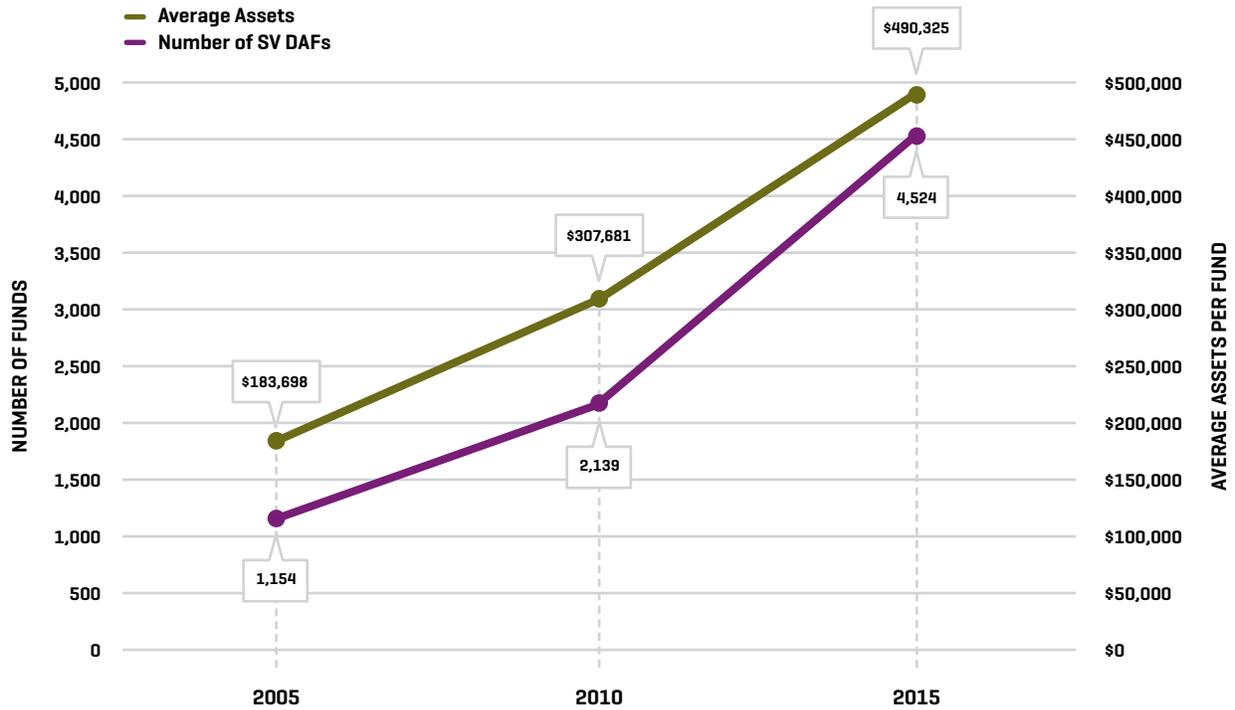
44 Silicon Valley Community Foundation online grants, 2015 Grants. (2015, December 31).

45 2015 Donor-Advised Fund Report. National Philanthropic Trust. Retrieved from <http://www.nptrust.org/daf-report/recent-growth.html>

46 See Appendix: Methodology, Donor-Advised Fund Data Sources.

**Figure 4.5. Growth in Number and Average Assets of SV-Based Donor-Advised Funds, 2005–2015**

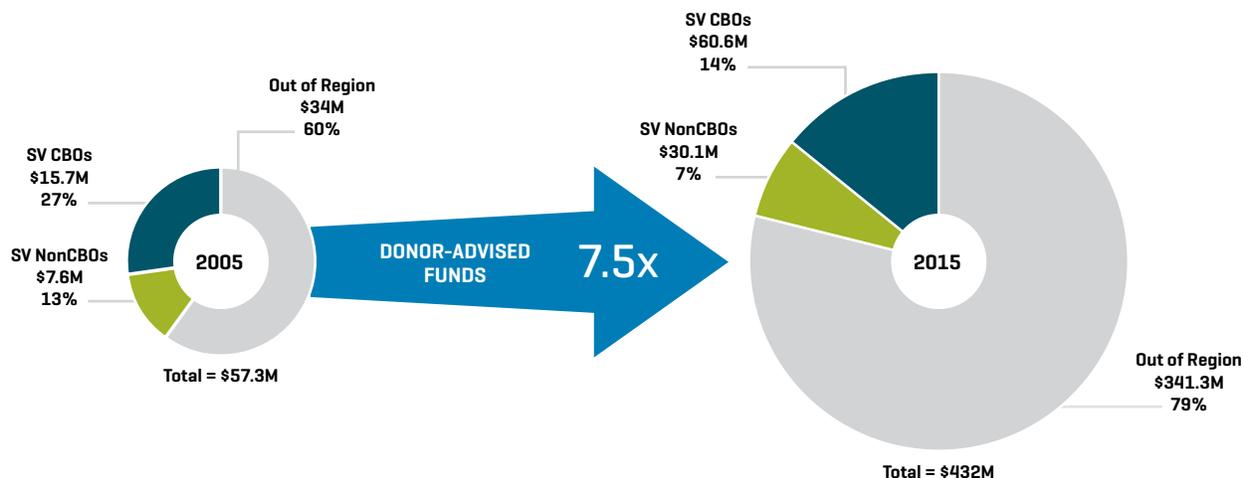
Top National Providers – Fidelity Charitable and Schwab Charitable



established a long track record of helping them to give more,” says Kim Laughton, president of Schwab Charitable. “More than 65 percent of our donors report they give more than they otherwise would because they have a donor-advised fund account.” Because the DAF “pie” has grown so much in the last decade, it means a far greater amount of DAF funding is going to local community-based organizations than before [\$61 million today versus \$16 million in 2005].

These numbers reinforce that donor-advised funds are now a huge part of Silicon Valley’s philanthropic landscape, as they are nationally. “The data underscore the strong culture of giving back among donor-advised fund donors in the Silicon Valley area,” says Amy Danforth, president of Fidelity Charitable. “These donors are recommending grants at an even higher rate than our overall granting rate, with 37 percent of assets being allocated from their donor-advised accounts in 2015. Their impact on their community and on communities around the globe is powerful.”

**Figure 4.6. Growth in Giving by SV-Based Donor-Advised Funds, Including Where the Money Goes, 2005–2015**



## Family Offices and Other Vehicles

A lesser-known vehicle gaining traction in Silicon Valley is the family office—an organizational structure for managing the wealth and affairs of one or multiple families, which can include managing their DAF(s) or foundation(s) and advising on philanthropy. A groundbreaking 2012 study by the National Center for Family Philanthropy (NCFP) found that ultra-high-net-worth donors increasingly are using family offices to help organize and coordinate their philanthropy.<sup>47</sup> The NCFP study shows that 92 percent of family offices support at least one private foundation and 85 percent have paid staff focused on philanthropy; the majority of family offices report administering a foundation with assets of \$50 million or less; and 22 percent of private foundations operating out of family offices have assets of \$100 million or more.

Many of the high-net-worth individuals we spoke with said that their family office staff helps them vet nonprofits and advise them on grantmaking from their donor-advised funds or private foundations. The Family Office Exchange, the country's largest association of family offices, estimates that more than 90 percent of its 400 members have foundations housed in their family offices, with many hosting two or more family foundations.<sup>48</sup> Given the role of these family offices in coordinating overall investments and donations, it's not surprising that the lines between these vehicles are also starting to blur.

In fact many of these families are choosing to help address social issues not just through traditional philanthropy (donations to nonprofits) but through for-profit vehicles as well. We noted a rising trend toward using limited liability corporations

### PATHWAY FOR GIVING

## FAMILY OFFICES AND OTHER VEHICLES

*A lesser-known vehicle gaining traction in Silicon Valley is the family office—an organizational structure for managing the wealth and affairs of one or multiple families, which can include managing their DAF(s) or foundation(s) and advising on philanthropy.*

<sup>47</sup> Working Together for Common Purpose: The First National Study of Family Philanthropy. (2012, October). National Office for Family Philanthropy.

<sup>48</sup> Ibid.

(LLCs) as a structure for funding socially responsible businesses. Mark Zuckerberg attracted attention when he announced that he and his wife, Dr. Priscilla Chan, would set up an LLC to help manage their giving, following in the footsteps of other Silicon Valley donors like Pierre Omidyar, who also established an LLC as part of the Omidyar Network. LLCs have become an additional, more flexible vehicle for making a wide range of investments toward these donors' social benefit and philanthropic goals.

Silicon Valley's new philanthropists are particularly interested in creating social impact through both their giving and their investments. Many family offices are beginning to pursue impact investing, making investments that seek both financial and social or environmental returns. One expert we spoke with noted several examples of family offices pursuing impact investing in such areas as battery capacity for renewables, solar farms, and securing debt for charter school expansion, to cite just a few. Charly and Lisa Kleissner, who both made their wealth in early Silicon Valley companies, have committed their entire foundation's portfolio to impact investments and have started several groups to promote impact investing as an alternative to traditional portfolios and negative-screened (or "socially responsible") investments.<sup>49</sup>

## Corporate Giving

In addition to the funds they give away as independent philanthropists, many Silicon Valley entrepreneurs are also integrating "giving back" into their businesses—by establishing corporate foundations, offering discounted products to nonprofits, deploying the "time and talent" of their employees to charitable causes, or other similar acts. In 1999 Salesforce CEO Marc Benioff launched the 1-1-1 model, pledging to give 1 percent of the company's equity, 1 percent of employee time, and 1 percent of its products to charity. More than 250 companies have since signed the pledge, in effect publicly committing to integrate philanthropy into their corporate cultures.

Many corporations channel their giving through employee matching gifts. Employees donate their own funds to the causes they care about, then their company matches that contribution, usually 1:1 and up to a certain limit every year—ranging widely from \$500 to upwards of \$10,000. Interestingly, we heard from multiple interviewees that much of these available matching funds can go untapped by employees each year. Meanwhile, corporate employee engagement programs are growing, with more and more companies offering employees the option of using a small portion of their work time to volunteer locally, or even providing grant dollars for volunteer hours (see the **"In Your Own Words" sidebar on Applied Materials** and its employee engagement in local communities).

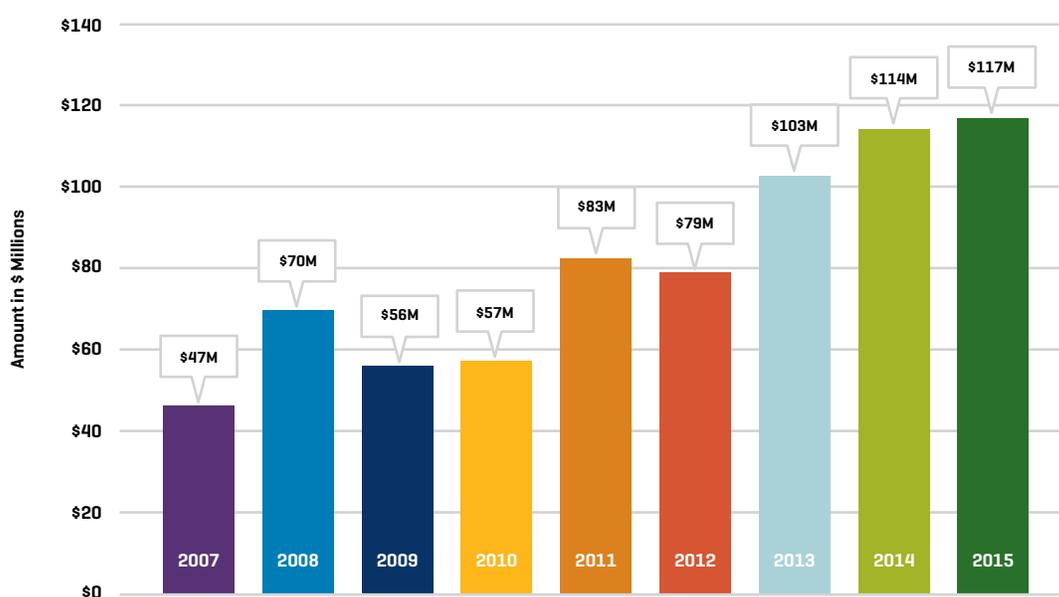
The amount that Silicon Valley companies have given away locally (to community-based organizations and non-community-based organizations) through cash

### PATHWAY FOR GIVING

## CORPORATE GIVING

*In addition to the funds they give away as independent philanthropists, many Silicon Valley entrepreneurs are also integrating "giving back" into their businesses—by establishing corporate foundations, offering discounted products to nonprofits, deploying the "time and talent" of their employees to charitable causes, or other similar acts.*

<sup>49</sup> Gensler, L. Meet the Silicon Valley Alumni Trying to Change the Way We Invest. [2015, November]. *Forbes Magazine*. Retrieved from <http://www.forbes.com/sites/laurengensler/2015/11/06/lisa-charly-kleissner-kl-felicitas-impact-investing/2/#69e6d9ce3c87>

**Figure 4.7. Growth in Giving by SV-Based Corporations to Locally Based Nonprofits, 2007–2015**

contributions has more than doubled since 2009, from \$56 million to nearly \$117 million in 2015 [see **Figure 4.7**]. However, as corporate philanthropy has become increasingly strategic over the last two decades, more companies are now focusing on a few designated issue areas or programs aligned with their core business objectives, such as STEM (Science, Technology, Engineering, and Math). While this focus is rightly celebrated as more impact-centered, it often means less funding is directed toward general support of local causes or organizations. It also leads to more corporate support of large, mature nonprofits that are able to scale and give visibility to their corporate partners, versus small community-based organizations that cannot.

Our research shows that the overall corporate giving pie has increased 4.5 times from 2006 to 2013 [see **Figure 4.8**]; while the share going to local community-based organizations has decreased slightly during that time [from 8% to 6%], and the total amount has gone up. Alongside this giving, Silicon Valley corporations are feeling increased internal and external pressure to actively participate in addressing systemic local problems like housing, education, and transportation.

## IN THEIR OWN WORDS: Siobhan Kenney, Executive Director, Applied Materials Foundation



“While our grantmaking has expanded with the establishment of offices around the world, we have intentionally maintained a deep commitment to Silicon Valley.”

As a Silicon Valley pioneer, our long history of giving is at the heart of our corporate culture. We believe in the importance of making a positive contribution in the areas where our employees work and live. Whether in Silicon Valley, Bangalore, or Shanghai, Applied Materials lives its core values of responsibility and integrity through active engagement in local communities.

Through our strategic grantmaking here and abroad, we focus on increasing educational opportunities in underserved areas, enhancing the vibrancy of the arts and cultural landscape, supporting programs that promote environmental awareness, and providing basic needs—such as nutritious food and affordable housing—for our most vulnerable residents.

More than 20 years ago we went a step further in our commitment, establishing the Applied Materials Foundation to set aside resources in growth years so that critical community investments could continue during economic downturns, when philanthropic support is needed most. While our grantmaking has expanded with the establishment of offices around the world, we have intentionally maintained a deep commitment to Silicon Valley.

Some argue that philanthropic dollars have greater impact in parts of the world where the cost of living is less expensive—and we have seen that in our global giving. Yet Applied Materials and our foundation believe that strong community investment is crucial to Silicon Valley. As numerous studies have reported, this region is currently grappling with major concerns, including a shrinking middle class, a considerable academic achievement gap, and an underfunded arts and culture sector. It is our responsibility as a corporate citizen to

support efforts that address these problems.

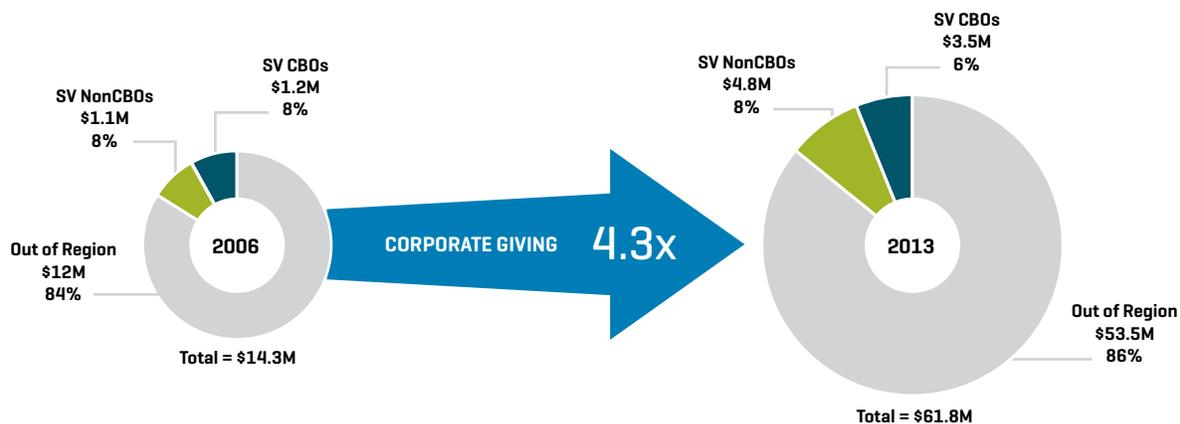
As such, we work diligently to make sense of community data, issues, and trends. We participate in collaborations, leveraging the strengths of others to achieve better results. Because we believe that an idea is only as successful as its execution, we work with nonprofits to understand their challenges and explore opportunities to kick-start projects that might not get off the ground without our support.

Our employees live in this community and are important partners in our philanthropy too. Applied offers employees the opportunity to invest alongside us, matching employee donations to eligible organizations. Employees can also take advantage of our dollars-for-doers program, which recognizes volunteers who donate time to local schools and charities.

As we celebrate the overall increase of funding in the Valley, we encourage companies to consider the vital role that engaged corporate grantmakers can play in our region. Business can offer tremendous support—even with relatively small financial investments compared to public and other funding sources—by becoming a trusted partner, a strong and persuasive voice, and an unwavering advocate for causes that are important to the overall community.

For additional information about corporate responsibility at Applied Materials, please visit <http://www.appliedmaterials.com/company/corporate-responsibility>.

**Figure 4.8. Growth in Giving By SV-Based Corporations (Overall) Including Where the Money Goes, 2006–2013**



## THE RAMP-UP TO GIVING

We heard repeatedly in our conversations with high-net-worth individuals and wealth advisors alike that the financial events that often create a donor's or company's wealth do not always coincide with their *readiness to give*. High-net-worth individuals described a “lag time”—what one advisor referred to as “the pause”—between the time that wealth is acquired and when they actually begin becoming more active donors.

Why this pause? Quite simply, because many of Silicon Valley's philanthropists—individuals, corporations, and foundations—feel compelled to be strategic in their giving rather than just compassionate. They talk about needing time to make thoughtful decisions, and many worry about making mistakes. More than 52 percent of wealthy individuals report that their philanthropy “keeps them up at night,” and cited such worries as whether they were making an impact, having their money wasted, or donating enough to a cause given the sometimes overwhelming need.<sup>50</sup> Many described to us a quiet, often lonely, and isolated process, not widely understood and often misperceived by the nonprofits seeking their support.

These experiences are in some ways an unintended consequence of the “strategic philanthropy” movement of the past two decades. Feeling an intense sense of responsibility to be good stewards of their philanthropic dollars can paradoxically slow down the process and make givers more risk-averse. They often want to do philanthropy the “right way,” only to discover that there is no right way. One young donor now giving away millions told a story of being so anxious about giving “strategically” that it was not until an older mentor gave her permission to experiment more freely that she was able to begin giving on a larger scale.

<sup>50</sup> Trends in Philanthropy: How and Why the Wealthy Give. (2016, March). SEI Private Wealth Management.

These donors also seem highly aware that it might take years before they fully come into their own as philanthropists. It's a lesson learned from the first wave of "venture philanthropists" in the early 2000s. Pierre Omidyar and Jeff Skoll, cofounders of eBay, both set up foundations during that time. The Omidyar Network had a bumpy first decade, with multiple changes in strategy and staffing, as Pierre and his wife Pam experimented with how to put their assets to highest and best use.<sup>51</sup> Now the foundation is considered one of the most innovative and effective models for strategic giving, leveraging not just philanthropic capital but also forms of impact investing to fund social-benefit companies.

Jeff Skoll is another leading philanthropist who has taken time to find his path: he set up multiple entities after leaving eBay, including the Skoll Foundation and Skoll Global Threats Fund, and Participant Productions, a for-profit film company promoting messages related to social-change. It took time to get each entity up and running, and achieving significant impact. Moreover, as both Omidyar and Skoll have learned, unlike startup companies, scaling social-change initiatives can take decades even once a plan is in place. The pace of change is far slower than scaling an online network or app.

More "everyday" philanthropists must find their way too. These individuals may operate on a smaller scale than Silicon Valley's billionaires, companies, and foundations, but in aggregate they are beginning to drive the vast majority of charitable giving. This new wave of philanthropists is highly aware that it might take them just as long to reach a steady state in their giving. It's one reason why they are both eager to launch their philanthropic journeys and cautious about throwing themselves into that work without feeling confident about their first steps.

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**More "everyday" philanthropists must find their way too. These individuals may operate on a smaller scale than Silicon Valley's billionaires, companies, and foundations, but in aggregate they are beginning to drive the vast majority of charitable giving.**

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<sup>51</sup> Omidyar, P. How I Did It: eBay's Founder on Innovating the Business Model of Social Change. [2011, September]. *Harvard Business Review*. Retrieved from <https://hbr.org/2011/09/ebays-founder-on-innovating-the-business-model-of-social-change>



# SECTION 5 AN EMERGING GIVING CODE



In Silicon Valley's tech sector, it is received wisdom that each generation or "wave" of industry innovation leads to the next; as technology ramps up and processing speeds become faster, it paves the way for new inventions that wouldn't have been possible even a few years before. To wit: the era of defense technology and semiconductors of the 1950s through 1970s led to the personal computing wave of the '80s, followed by the internet wave of the '90s, ultimately leading to the social media companies of today.<sup>52</sup> Silicon Valley giving follows a similar arc, with each wave of corporate success creating new personal wealth and catalyzing a subsequent wave of philanthropy, complete with its own forms of experimentation and innovation.

The first real wave of Silicon Valley philanthropy began in the 1960s to 1970s when the founders of early technology companies, such as the Hewletts and Packards, set up local family foundations. This was followed by the next wave, sparked during the dot-com boom of the 1990s, as founders of internet companies like eBay began bringing a business mindset to their philanthropy and experimenting with new approaches to giving. Around the same time, local philanthropist Laura Arrillaga-Andreessen set up Silicon Valley Social Venture Fund [SV2] to get newly wealthy individuals to pool their funds and learn how to be more strategic in their giving. "Microsoft millionaires" set up a similar group, Social Venture Partners, in Seattle, WA. (Today, both are part of a global network of 40 giving circles known as Social Venture Partners Network.)

Together, these entrepreneurs-turned-philanthropists helped contribute to the strategic and venture philanthropy movements of the past 20 years. The latter applies principles from venture capital investing to social change: selecting great leaders with scalable models, making multi-year financial commitments, and taking a more hands-on approach by advising nonprofits on strategic issues or even taking a board seat. Other local philanthropy groups like Draper-Richards-Kaplan extended the model even further, raising funds from donor-investors and then selecting and managing a portfolio of social entrepreneurs and startup nonprofits toward specific outcomes, often including growth and scale. This era also spawned a number of related articles in publications like the *Harvard Business Review* and *Stanford Social Innovation Review*.

If the venture philanthropy movement was version 2.0 of Silicon Valley giving, then today we are arguably at the beginning of version 3.0—and an emerging giving code that is only just beginning to be written. The new donors described in this report are building on the last several decades of innovations and learning, further disrupting traditional models of giving, and hoping to achieve transformational change through their philanthropy. Members of this next wave

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If the venture philanthropy movement was version 2.0 of Silicon Valley giving, then today we are arguably at the beginning of version 3.0—and an emerging giving code that is only just beginning to be written.

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52 From Silicon Valley Competitiveness Index. Retrieved from <http://svcip.com/>

seem to share a genuine desire to change how the world and whole systems work—and the hubris to think that they can succeed, because through their companies, they already have.

Generally, these new philanthropists are young, and many are members of the Millennial generation (born between 1980 and 2000). In fact much of what has been written about Millennial-giving actually parallels the giving patterns of the high-net-worth individuals we spoke to, regardless of their age—suggesting, perhaps, that Silicon Valley donors have more in common with Millennials than with other philanthropists. National research shows that Millennials are oriented more toward causes and issues than traditional institutions.<sup>53</sup> They are more interested in being hands-on in their learning about issues, demand more transparency and data from grantees, and are more inclined to be inherently skeptical of nonprofits.

This is also a generation heavily influenced by the consumer trend of personalization. As Jackie Rotman, former executive director of SPARK, a philanthropic network of 1,000 young professionals, told us, “Millennials are seeking personalized experiences with nonprofits to explore their passions, gain skills, build their resumes, and to begin making more meaningful connections and advocating for causes they care about.”

In Silicon Valley the influence of Millennials on philanthropy is more pronounced given their high levels of education and the fact that they make up a significant portion of the local workforce, including those who have benefited significantly from recent IPOs and are themselves newly wealthy. As noted, it’s not only the handful of headline-making billionaires who are giving in new ways, but the thousands of their employees and peers who are now millionaire Millennials. Add to this the fact that this generation will inherit more wealth than any generation in history, as \$30 trillion gets transferred from Baby Boomer parents to their Millennial heirs over the next two decades.<sup>54</sup> It’s why so many scholars of philanthropy and savvy nonprofits have started paying attention to this generation’s giving patterns, and all the more reason why it is important to understand their evolving approach to philanthropy. (See **Figure 5.1** to better understand how the emerging giving code stacks up against traditional philanthropy.)

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In fact much of what has been written about Millennial-giving actually parallels the giving patterns of the high-net-worth individuals we spoke to, regardless of their age—suggesting, perhaps, that Silicon Valley donors have more in common with Millennials than with other philanthropists.

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<sup>53</sup> Feldman, D., Hosea, J., Ponce, J., Wall, M., & Banker, L. Cause, Influence, and the Next Generation Workforce. [2015]. The 2015 Millennial Impact Report.

<sup>54</sup> The “Greater” Wealth Transfer: Capitalizing on the Intergenerational Shift in Wealth. AccentureConsulting.

Figure 5.1. Traditional Philanthropy Vs. the Emerging Giving Code

| Traditional Philanthropy  | Emerging Giving Code   |
|---|--|
| <b>CHARITY:</b> More focused on “charity” and meeting immediate community needs                               | <b>IMPACT:</b> Focused on <i>impact</i> , on solving big problems, and on getting at root causes                               |
| <b>CIVIC:</b> Give to “place”: build civic institutions like libraries, universities, arts organizations      | <b>HACKER:</b> Give to issues or causes—want to disrupt traditional models and innovate  |
| <b>TREASURE:</b> Want to write checks and outsource programs; low-engagement with grantees beyond funding     | <b>TIME AND TALENT:</b> Want to engage their time and talent as well as treasure; high engagement with grantees and giving     |
| <b>DECEASED:</b> Donors leave wealth through trusts, estates; majority of philanthropy happens after death    | <b>LIVING:</b> Donors “giving while living”—start with philanthropy much younger, want to give away their fortunes while alive |
| <b>ONE-CHANNEL:</b> Single vehicle for giving   | <b>MULTI-CHANNEL:</b> Multiple and creative vehicles for giving: LLC, DAFs, foundations, impact investing, etc.                |
| <b>LOCAL:</b> More concentrated on giving locally   | <b>GLO-CAL:</b> Giving is global, national and local   |
| <b>MORALITY:</b> Use the language of altruism, religious obligation, charity and ethics to frame their giving | <b>BUSINESS:</b> Use the language and mindsets of business; focused on metrics and data, efficiency and effectiveness          |
| <b>LOW TECHNOLOGY:</b> A reliance on subject-matter experts to advise their grantmaking                       | <b>TECHNOLOGY-ENABLED:</b> A reliance on learning by doing, failing fast, the wisdom of crowds                                 |
| <b>LEGACY:</b> Motive is their “legacy” and belonging in society  | <b>SELF-ACTUALIZATION:</b> Motive is being more self-actualized; giving is an expression of self                               |
| <b>ORGANIZATION:</b> Institutional models of traditional hierarchies influence their giving patterns          | <b>NETWORKS:</b> Models of networks and systems shape their giving patterns  |

## CRACKING THE GIVING CODE

While these new Silicon Valley philanthropists are still in the early stages of their journeys, certain patterns to both the motives and the style of their giving are becoming evident. It’s what we are calling the emerging “giving code,” because it’s not yet set in stone. We’re not the first to write about these patterns: with all the new wealth being generated in Silicon Valley, other members of the mainstream media and a handful of sector thought-leaders have begun to document the philanthropy trends of this generation.<sup>55</sup> Here, we seek to build on these previous articles, and deepen some of the nuances and complexities associated with this emerging giving code.

<sup>55</sup> We particularly want to highlight Laura Arrillaga-Andreessen, who has written extensively on philanthropy and new modes of giving, and Kim Dasher Tripp, whose recent writing on new philanthropy in Silicon Valley captured many of the same themes we heard in our focus groups and interviews with wealthy individuals and donors.

While this “code” is not entirely new, one thing is clear: the donors who embrace it are taking the trends of the past few decades to new heights. They seek to be “bigger, better, and faster” in their giving than the philanthropists who came before. And along the way, they are both disrupting current nonprofit and philanthropic models and inventing new ones. Just as digital technology has radically disrupted traditional industries like music and journalism, so too this wave of philanthropy could disrupt how we currently think about social change and the best way to achieve social impact at scale. Certainly, not every tech entrepreneur-turned-philanthropist feels guided by these principles—but remarkably, many of those we spoke with do. Below, we highlight four of the key elements of this emerging giving code, challenging some of the simplicity often equated with this new giving. We believe that we need to understand both the potential and limitations of these principles in order to shape a code that will help donors and nonprofits address Silicon Valley’s myriad problems in transformative ways.

## High Impact

Like the previous wave of strategic philanthropists, this generation of donors is not interested in charity or Band-Aid solutions. While they can be persuaded that meeting immediate needs is important, they prefer leaving that to more traditional funders. Rather, they want to have an outsized impact via their philanthropy; it’s the proverbial “give a man a fish you feed him for a day, teach a man to fish and you feed him for a lifetime.” They aspire to get to root causes and solve social problems rather than just ameliorate them. It’s perhaps why so many of them are drawn to investing in healthcare; the Bill and Melinda Gates Foundation has proven that it is possible, with vast sums of wealth, to tackle a specific and bounded problem like ending malaria, eradicating polio, or reducing infant mortality in Africa.

Not surprisingly, this focus on impact also leads to a corresponding emphasis on data and metrics, with a desire to track outcomes and not just document activities or share heartwarming stories. These philanthropists do not care to hear minute details about a nonprofit’s programs and services; instead, they want to know what impact an organization is having on an issue. As one donor told us, “When I talk to nonprofit leaders, they consistently struggle to explain what outcomes they will achieve for their target clients, how much it will cost, and why it’s important. I want to fund meaningful outcomes, not organizations.” It can sometimes take a decade to see real results, but for nonprofit leaders, making the effort to track even incremental outcomes makes a big difference to these donors.

We uncovered a great example of this in the local Boys & Girls Clubs of Silicon Valley, run by a former technology executive and management consultant-turned-social-entrepreneur, Peter Fortenbaugh. Rather than focusing on traditional after-school activities, over the past decade Fortenbaugh has pivoted the organization to focus on helping at-risk youth in a low-income neighborhood

### GIVING CODE

## HIGH IMPACT

*Like the previous wave of strategic philanthropists, this generation of donors is not interested in charity or Band-Aid solutions. While they can be persuaded that meeting immediate needs is important, they prefer leaving that to more traditional funders.*

excel academically. He and his team recently crafted a new strategic plan that focuses much less on the group's programs and much more on the results they intend to deliver—highly cognizant of the fact that this is what Silicon Valley donors want to hear. [See the **“In Their Own Words” sidebar on the The Boys & Girls Clubs of the Peninsula** for a concrete example.]

This focus on outcomes and metrics is not exclusive to Silicon Valley philanthropy—it is perhaps just heightened here. Many national organizations focused on nonprofit ratings are responding to new donor demand for data by creating initiatives to help nonprofits be clearer about their metrics and track their outcomes. Of note is GuideStar, a national charity-rating platform that has moved from offering nonprofit tax filings online and ranking organizations based on overhead ratios and financial metrics to providing tools to help nonprofits showcase what 990 forms don't disclose—namely, key metrics that help stakeholders understand the organization's actual results. Through their new offering called Guidestar Platinum, they have developed an initial database of hundreds of metrics for nonprofits to choose from in reporting to funders. For nonprofits seeking to engage this new generation of donors, they would be well advised to find ways to measure and share results, to appeal to donors' “heads” and not simply their “hearts.”

Of course, this is sometimes easier said than done. It's worth noting that this focus on impact and results doesn't take into consideration some of the complexities and challenges of measuring social change. While many things in the private sector can ultimately be reduced or tied to a quantifiable financial metric (profit or loss), the same isn't true of social impact. Certain things like educational test scores, or lives saved, are easy to measure, but other things are more challenging to quantify: for example, the impact of an arts program in a community, or the importance of “grit” and “character” to an individual's development. Additionally, social change can sometimes take years to achieve—the real impact of certain interventions isn't seen until decades later. And assigning causality is difficult, as lasting social impact often takes groups of organizations working together to change behaviors or public policy.

Unfortunately, the challenge of having to measure results may also leave a whole segment of nonprofits behind, as they struggle to serve the critical needs of some of our most vulnerable populations with no capacity to meet the demands of donors with such different worldviews and expectations. Nevertheless, nonprofits would do well to try and measure what they can, even if it's only leading indicators. There's no sign that this focus on impact and results is going away anytime soon.

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For nonprofits seeking to engage this new generation of donors, they would be well advised to find ways to measure and share results, to appeal to donors' “heads” and not simply their “hearts.”

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## IN THEIR OWN WORDS: Peter Fortenbaugh, Executive Director. The Boys and Girls Clubs



“Donors are increasingly seeking measurable results when giving. More and more, individuals, foundations, and corporations are seeing their gifts as investments and want to see a return on those investments.”

The Boys & Girls Clubs of the Peninsula, in partnerships with local school districts, serves 1,800 low-income youth through the Club’s afterschool, summer, and school-day programs. The following is an excerpt from its 2015 Report to Stakeholders, highlighting the focusing of their mission and the change in donor needs.

### BGCP 3.0

The Boys & Girls Clubs of the Peninsula (BGCP) is in the midst of an evolution sparked by a straightforward business practice: listening to our customers. Our customers’ needs have changed, and we are evolving our approach to best meet their new needs. We have modified our mission: to provide the low-income youth of our community with the expanded learning time opportunities they need to graduate from high school, ready to succeed in college and career. In 2015 this means that, in addition to providing our youth with a safe place and positive relationships, we must partner with schools to have greater impact on our youths’ school success. Our evolution builds on our traditional core strengths—including building positive relationships between youth and mentors—and is a matter of adding skills and capacity.

### FUNDERS

Donors are increasingly seeking measurable results when giving. More and more, individuals, foundations, and corporations are seeing their gifts as investments and want to see a return on those investments. They want to see their dollars solving problems, rather than merely providing services. Funders are looking to do more than give money—they want to achieve social impact through outcome-driven models. They are especially looking for results in academic achievement.

Rather than supporting organizations like BGCP directly, some funders are donating to schools directly and asking the schools to decide how to allocate the funds. Schools have become gatekeepers to some large funders.

As a result of these changes, BGCP, and Boys & Girls Clubs across the United States, are in danger of being “blackberried” (i.e., marginalized.) If we don’t respond, we could end up like traditional service providers that Silicon Valley philanthropists may appreciate but don’t significantly support (e.g., the Salvation Army, the United Way). There will always be funders for the original Boys & Girls Club model of a safe place, but the size of this funding will be a fraction of what is available for organizations that can demonstrate measurable academic results in partnership with schools.

## Innovative

Many of these new donors made their fortunes as technology entrepreneurs, and they bring that same creative and restless energy to their philanthropy. Their emphasis on innovation and problem-solving goes hand-in-hand with the focus on impact, outlined above. In a region where the influence of “human-centered design” and “lean startup” is ubiquitous, it makes sense that these philanthropists are compelled to seek new approaches to solving age-old social and environmental challenges. They are also much less likely to be compelled by more traditional approaches to fundraising such as galas or direct mail. As one focus group participant told us: “Don’t invite me to a gala to tell me about a great organization. Invite me to a meeting to discuss how together we will solve the problem.”

As a result, these donors are not afraid to challenge traditional ways of thinking, or even disrupt the establishment. Sean Parker, a self-described “hacker philanthropist,” is the perfect example. The 35-year-old cofounder of Napster and Facebook set up his foundation with \$600 million in 2015 to consolidate his giving in the areas of life sciences, global public health, and civic engagement. In 2016 he gave \$250 million to create a “cancer moonshot,” taking a decidedly disruptive approach to the medical industry: he’s incentivizing top researchers and scientists in the cancer field to share their data and collaborate to find new insights in a way that they have never done before. As of April 2016, more than 300 scientists working at 40 labs in six premier institutions, including UCLA, UCSF, and Stanford, had all signed on.<sup>56</sup> As Sean Parker told the *San Francisco Chronicle* recently, “It’s not just enough to come up with slightly better incremental improvements on the kind of treatments that are out there. The goal is actually to achieve a cure.”

In addition to wanting to fund new innovations and scale them up, these entrepreneurs also want to disrupt, displace, or reinvent existing dysfunctional systems—such as public education and healthcare—and to create social change that is both scaled and sustainable. This is exemplified by the wave of double-bottom-line businesses in both of these industries, where for-profit organizations with a social mission focus on disrupting education or healthcare with technology solutions. It’s also true of the corporate philanthropy world, where many corporate giving programs seek to leverage a company’s technical expertise and apply it to solving social problems. And it extends to individual donors’ philanthropic giving as well.

Jim Fruchterman, the founder of Benetech, a nonprofit that uses technology for social good, told *The Chronicle of Philanthropy* that it’s much easier to raise funding from these new donors for technology-enabled products and programs that can earn revenue, be cost-effective, meet a need, and scale—in other words, that follow a business-like approach to innovation and social change.<sup>57</sup> On the

### GIVING CODE

## INNOVATIVE

*Many of these new donors made their fortunes as technology entrepreneurs, and they bring that same creative and restless energy to their philanthropy. Their emphasis on innovation and problem-solving goes hand-in-hand with the focus on impact, outlined above.*

<sup>56</sup> Eunjung Cha, A. \$250 Million, 300 Scientists and 40 Labs: Sean Parker’s Revolutionary Project to “Solve” Cancer. [2016, April 13]. *The Washington Post*.

<sup>57</sup> Wallace, N. Silicon Valley vs. Philanthropy. [2015, June 1]. *The Chronicle of Philanthropy*.

other hand, he has also discovered that he can't get new donors to care about programs focused on human rights because it's "at odds with their approach to giving: it's slow-going, hard to measure results, and generates little or no income."

Again, understanding how this problem-solving approach maps to specific issues will be important for the larger field to sort out. The downside, of course, is that there's a risk of throwing the baby out with the bathwater: these new donors are so eager to bring their disruptive approach to nonprofits that they don't always take the time to understand what has or hasn't worked in the past, or learn from those who are closest to the end user. As Nate Levine, Founder of BuildingBlox Consulting, and an expert in nonprofits and fundraising told us, "The inclination for many of these donors—especially super-high-net-worth C-suite types—is they want to do something highly personalized and deeply engaged. But that often means reinventing the wheel and dismissing the current group of community-based organizations, who are not seen as innovative. So we need to encourage a spirit of innovation, while also looking at what is currently working."

As the sector learns to adapt, it will take more donors with a longer-term view, and patient capital, to step in and support those causes that don't lend themselves to disruptive innovation, such as meeting immediate needs by providing food, clothing, or shelter. Nonprofits meanwhile should do what they can to emphasize their problem-solving approach and their focus on a larger issue, rather than just talking about their programs or organizations.

## Connected

In our conversations with new donors, and in reading through recent writing on this topic, we were struck by how experiential their approach to philanthropy is, regardless of their age. Following the current design-thinking mantra, these donors seek out opportunities to make small bets, experiment, learn, and then scale what works. It's one reason why personal connection is often a critical factor determining where a donor will give. Donors often give first to causes and organizations that benefit them personally, or where they have a direct relationship: such as their children's private school, their alma mater, or their church, mosque, or synagogue. They also are influenced by their peers—giving to organizations and causes recommended by friends or networks of other donors. And sometimes they build upon their own very personal experiences to shape their giving.

Dr. Priscilla Chan, who is married to Facebook founder Mark Zuckerberg, presents a compelling example of a Millennial giver who is beginning to embody this aspect of the giving code. Soon after Dr. Chan and her husband pledged to give away the vast majority of their fortune, she started her philanthropic journey as the founder and CEO of The Primary School in East Palo Alto, which will provide integrated health and education offerings to an initial 50 families, presumably with the intent to scale up. This is a small and very hands-on bet, and one that draws upon her own personal experiences as a physician, her childhood growing up as an

### GIVING CODE

## CONNECTED

*In our conversations with new donors, and in reading through recent writing on this topic, we were struck by how experiential their approach to philanthropy is, regardless of their age.*

immigrant, and her volunteer work during college, mentoring inner-city youth in a low-income neighborhood.<sup>58</sup>

In our research we uncovered many examples of high-net-worth individuals doing very hands-on work in the community, while also overseeing considerable philanthropic assets in private foundations or donor-advised funds. These donors are not content to just write checks; they want to volunteer, take board seats, mentor and advise nonprofit leaders, and even run some of their own programs—in other words, personal connection matters. One donor we talked with began her philanthropic journey volunteering at a preschool in a low-income area in San Mateo County; another is a volunteer in a public-school classroom; and yet another started her journey as a legal advocate for children in the foster care system. What they all have in common is a desire to see and touch social change close-up. One individual we interviewed underscored how hard it is for him to give to a nonprofit without a direct connection; he described the act of generosity “as elevated human interest that comes from the desire to connect in a meaningful way with the recipient of the gift.” In the process, he cited research that giving in a connected way activates what one researcher has referred to as “happiness chemicals,” that lead to positive health benefits and make donors feel good.<sup>59</sup>

Like the Millennial generation, these donors are highly networked and prefer peer-learning in groups to isolated experimentation. Not surprising for a generation that has grown up with social media, they see the world through the lens of networks and connectivity. It’s why groups like Spark, the Millennial giving circle that raises funds for girls and women’s causes, and groups like Silicon Valley Social Venture Fund [SV2] have become so popular in the past few years. As former SPARK executive director Jackie Rotman told us, “We always build in networking to any meeting so it feels socially connected and builds community. We actually found the social aspects of our giving and fundraising events are really important to our members.”

Data from SV2 and the international network it is part of, Social Venture Partners International, demonstrates that participation in a giving circle or philanthropy network actually helps donors get more confident faster and results in more giving.<sup>60</sup> There is little doubt that these new sorts of giving networks, alongside other influential ones such as Legacy Venture—a Palo Alto-based fund of funds where high-net-worth individuals can invest and grow their philanthropic assets—will continue to proliferate.

The downside of this connected approach is that it can sometimes cause donors to have a “giving bias” and favor institutions benefiting them personally, recommended by friends, or already in their social sphere, rather than those nonprofits helping the least fortunate in the community. And, creating unique engagement opportunities for donors to feel connected can sometimes cause

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**These donors are not content to just write checks; they want to volunteer, take board seats, mentor and advise nonprofit leaders, and even run some of their own programs—in other words, personal connection matters.**

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<sup>58</sup> Wong, Q. Priscilla Chan, in Rare Interview, Tells How Her Goals with Mark Zuckerberg Are Shaped by Personal Story. [2016, April]. *The Mercury News*.

<sup>59</sup> Renter, E., What Generosity Does to Your Brain and Life Expectancy. [2015, May 1]. *US News & World Report*.

<sup>60</sup> Survey Data Summary Report. [2015, February]. Silicon Valley Social Venture Fund - SV2.

nonprofits extra work; not all of them have the bandwidth or capacity to meaningfully engage volunteers. Nevertheless, nonprofits seeking to raise funds from this new group of donors would do well to build personal connection—and tap into donor networks—as an important starting point.

## Diversified

Lastly, it's worth noting that these donors approach giving from a pragmatic and multi-disciplinary lens: this applies to the vehicles and kinds of capital through which they give, as well as the issues, places, and organizations to which they give. As a starting point, most of these donors are not content to just set up a family foundation for their giving—rather, as we saw in Section 4, they will use multiple financial vehicles for their philanthropy, selecting those best matched to their goals, whether a donor-advised fund, a family office, an LLC, or something else all together.

These donors take a similar diversified approach to their grantmaking. Rather than tying themselves to a single issue, or a single geography, they are taking a portfolio approach to their philanthropy. After all, they've learned from the asset-management industry that diversification is a good thing. This means that any given donor may support multiple issues and will likely do so at local, national, and global levels simultaneously. In other words, these donors don't want to be pigeonholed; they are just as likely to invest in experiments in Africa as they are to invest in national or even local nonprofits.

Lastly, this approach also applies to the kinds of capital they seek to deploy to make a difference. For example, to address an issue like poverty, a foundation or individual might choose to invest in nonprofits providing direct services to poor families to help them gain job skills or improve their education. But they might also invest in for-profit banking solutions that provide below market-rate loans to clients who are not attractive to mainstream banks. This use of multiple tools addresses the complexity of tackling short-term local needs and larger systems gaps at once. As eBay founder Pierre Omidyar said recently to *The Chronicle of Philanthropy*: “If you're trying to make the world a better place, doing so by only focusing on tools in the nonprofit sector is like operating with one hand tied behind your back.”

On the face of it, this emerging Silicon Valley giving code and the rising philanthropists who embody it seem well matched to help solve the many problems plaguing the region in which they work and live. Their willingness to give, their focus on impact, their innovative approaches, and their desire for connection seem like perfect complements to the needs of under-resourced local nonprofits and the people they serve. Yet these new philanthropists and local nonprofits overwhelmingly operate separately, with little common ground between them. In the next section, we explore why.

### GIVING CODE

## DIVERSIFIED

*Lastly, it's worth noting that these donors approach giving from a pragmatic and multi-disciplinary lens: this applies to the vehicles and kinds of capital through which they give, as well as the issues, places, and organizations to which they give.*



SECTION

6

# BARRIERS TO CONNECTION AND TO LOCAL GIVING



Downtown College Prep was the first charter high school in Silicon Valley. To date, 600 alumni have made the dream of college a reality due to DCP's core belief that all students can discover their power to change the world when college-going becomes part of their identity.

The earlier sections of this report focused on outlining the challenges (and hinting at the opportunities) facing Silicon Valley's nonprofits and new philanthropists separately. In this section we bring these two groups together to more closely consider the relationship between them, examining why they are often disconnected and why these gaps need to be bridged.

To be sure, many new philanthropists have prioritized Silicon Valley as a key focus of their giving and are forging connections with local community-based organizations. Whether motivated by a sense of community responsibility or by knowledge of the overwhelming disparities in their own backyards, they are not just donating but welcoming the learning that comes with local engagement. Several local foundations continue to make sizable donations designed to fuel local efforts and organizations. Our initial research also revealed a few dozen corporate givers that are focusing 50 percent or more of their giving locally, though only a handful give at a large scale.

But these examples are the exception, not the rule. Overwhelmingly, the needs and challenges in Silicon Valley are scaling faster than the philanthropic resources going toward solving them. The time, talent, and treasure available on the philanthropic side are not linking up with the local knowledge, community relationships, and social change expertise on the other. On the capital supply side are a growing group of Silicon Valley donors. On the demand side are community-based organizations that need more capital to meet current and future demands being created by local economic and political forces. Our research shows that this gap between the supply and demand sides appears to be widening.

The question is: What is standing in the way of local philanthropists and local nonprofits working together to address Silicon Valley's many social and systemic problems? What is driving or reinforcing these polarizing dynamics? As we probed these issues with high-net-worth individuals, nonprofit leaders, and corporate giving officers, a complicated picture began to emerge, one marked by barriers to local giving and gaps in understanding that are preventing these two groups from finding common ground. Below we share much of what we learned about these obstacles before sharing emerging solutions for how to address them.

## BARRIERS TO CONNECTION

For Silicon Valley philanthropists, perhaps the most obvious barriers to local giving are the curse of choice and the complexity of today's global, interconnected world. When asked to create a "pie chart" of their giving allocations, the new philanthropists and corporate giving officers we met with reported a distribution of issues that often defied geography. In talking about the limitations of local giving, one donor said that not all of the best-in-class models operate in Silicon Valley, so if you are focused on a specific issue, you may need to look elsewhere

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**The question is: What is standing in the way of local philanthropists and local nonprofits working together to address Silicon Valley's many social and systemic problems? What is driving or reinforcing these polarizing dynamics?**

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for top nonprofits to fund. For those seeking to test models with potential for replication, geography is often not as important as an organization's potential for impact and its readiness to scale.

The small size of most local nonprofits was mentioned repeatedly as another key barrier. These organizations have minimal capacity to partner with foundations, corporations, and individual donors in the ways these philanthropists expect, or deliver on the requirements that come with receiving large grants. Donors are increasingly searching for evidence and reason—one of the principles espoused by the “effective altruism” movement—to determine the most effective ways to improve the world. And we heard a number of donors and giving officers make the “return on investment” argument: they believe their philanthropy can achieve more impact in emerging markets, where costs and barriers to entry are low. They feel that giving \$50,000 won't move the needle for anyone locally but it could change many lives in a developing country. (See the **“In Their Own Words”** sidebar to learn about similar challenges faced by the India Community Center.)

Many donors—most of them with business backgrounds—are flummoxed by the social sector in general. One donor described being invited to join a nonprofit board of directors and naively accepting, only to be surprised by the level of commitment expected from him, including pressure to give financially and recruit others to the cause, which was not made clear at the outset. It took him some time to disentangle himself and to decide what would be the best use of his time, which cause aligned more with his interests, and the amount of giving he could sustain. Other donors we talked to had unfortunate experiences with nonprofits taking funding for promises on which they ultimately couldn't deliver, leading to disappointment. These experiences can dissuade new donors from further giving or make them more cautious.

This story speaks to a larger theme that was pervasive in our discussions with high-net-worth individuals: their inherent skepticism of the social sector and its overall “efficiency and effectiveness.” This sentiment is echoed in national data showing that there is diminishing confidence in nonprofit organizations overall.<sup>61</sup> Many of the local donors we spoke with believe that there is too much redundancy among Silicon Valley nonprofits. They also worry that these local nonprofits don't have effective program models, aren't focused on systemic solutions, and lack a data orientation and clear strategies. It's a tough message for nonprofits to hear, and it reflects larger systemic problems that have gone unaddressed by nonprofits and those that have funded them for decades or more.

Donors also consistently spoke about being overwhelmed by the many nonprofits crowding the Silicon Valley ecosystem. “The vast majority of those now able to give aren't from Silicon Valley originally, so they don't have ties to [local] charitable organizations,” local philanthropist Laura Arrillaga-Andreessen told us. “The process of choosing worthy organizations among the thousands of local

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Donors are increasingly searching for evidence and reason—one of the principles espoused by the “effective altruism” movement—to determine the most effective ways to improve the world.

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<sup>61</sup> Perry, S. 1 in 3 Americans Lacks Faith in Charities, Chronicle Poll Finds. (2015, October). *The Chronicle of Philanthropy*. Retrieved from <https://philanthropy.com/article/1-in-3-Americans-Lacks-Faith/233613>

**IN THEIR OWN WORDS: Gautam and Anil Godhwani, Cofounders, India Community Center, Milpitas, CA**

“We have also come to appreciate just how different the nonprofit sector is from the technology startup world. There is no clear market for capital to fund startup costs and scale.”

As we reflect back, we have come to realize how much harder it is to start and fund a nonprofit in Silicon Valley, compared to a technology company! After graduating from UC Berkeley and UC Santa Barbara, we came together as brothers and founded a technology company that we later sold to Netscape in 1998.

After the sale, we took a year off to travel across India, and that’s where the idea for our next startup was born—this time a nonprofit. We envisioned an inclusive community center for the 250,000 Indian Americans who live and work in the Bay Area, where every generation could find comfort in various facets of their culture, preserve and practice unique traditions, and celebrate festivals and social milestones in a welcoming environment.

Just like any startup, we created a business plan to launch the effort. We recruited mentors and advisors, including Talat Hasan, who served as the first Board Chair of our new nonprofit named India Community Center (ICC), and Nate Levine, who had served as Executive Director at the Jewish Community Center in San Francisco, and was generous in sharing his learning with us. We needed angel investors willing to provide philanthropic capital. This proved much harder than we imagined.

Many successful technology executives from India were just beginning to develop their philanthropy, focusing on their religious institutions or temples, and supporting the underprivileged back in India. They felt that a modest contribution to a cause in India has an outsized “social return on investment,” as it can literally transform a person’s life. Despite this dynamic, we have raised \$30 million since ICC was founded; however, \$20

million has come from 10 families. Even as the Indian American community grows in wealth in our region, we have struggled to diversify our funding base to ensure a healthy funding model and to pave the way for expansion to other parts of the Bay Area and the rest of the country.

Since our founding in 2003, we have much to celebrate: The ICC, based in Milpitas, is the largest nonprofit of its kind in North America with over 60,000 sq. ft. of facilities, including a Table Tennis Center that has sent athletes to the 2012 Olympics in London and upcoming 2016 Olympics in Rio. Together, professional staff and hundreds of volunteers provide several hundred programs annually, offering everything from Bollywood to yoga to language classes. We also have a significant focus on community service, with free legal, medical, and career clinics, extensive senior programs, and a preschool in its second year, already with a long waiting list. Today we serve hundreds of seniors daily, thousands of children and youth attend our summer camps, and we host over 100,000 visitors a year.

We have also come to appreciate just how different the nonprofit sector is from the technology startup world. There is no clear market for capital to fund startup costs and scale. While we have a healthy earned-revenue mix, we are still struggling to find the membership levels needed to cover our costs and attract great staff in such a competitive environment. It has been a long journey with no quick exit and a lot more work to do!

nonprofits can prove a monumental task.” These donors find it hard to understand the local nonprofit landscape and how it functions. The corporate giving officers we spoke with echoed similar themes. They underscored that local nonprofits often have redundant missions and needs, leading to significant duplication of efforts as well as coordination gaps among many players working on similar issues. A key insight is that both individual donors and corporate giving officers are looking for stronger organizations that can scale, rather than lots of small organizations that have real or perceived redundancies.

On the “demand for capital” side, the nonprofit leaders we spoke with talked about how challenging it is to identify potential donors within this proliferating landscape of individual philanthropists, companies, and foundations. They often don’t know who the donors are or what they care about because new giving vehicles—donor-advised funds and family offices—can make the details of their philanthropy harder to access. In addition, this space is now being more intermediated by family offices and national wealth management firms that are not set up to focus on local community needs. “Often it’s difficult to connect with those donors because they have the fund administrators between them and us,” said Victoria Smith, development manager at Oxfam America, in a recent article from *The Chronicle of Philanthropy*. “There is an extra layer of communication.” This problem is exacerbated by the fact that many nonprofit leaders lack familiarity with some of the newer ways that philanthropists are giving. According to a study by Vanguard Charitable, only 23 percent of nonprofit organizations are “very familiar” with how donor-advised funds work and how to fundraise from them.<sup>62</sup>

Many nonprofit leaders also report an unease about the very different giving approaches that tech entrepreneurs and corporations bring to the table. Most are ill-equipped to receive the technology equipment and solutions that might be offered to them as a form of operational support, because they lack the in-house skills to use these tools, the budgets and expertise to maintain them, or both. Relatedly, they often lack the capacity to provide the kinds of data and metrics that these donors increasingly require and report being overwhelmed by a multiplicity of data requests.

## CRITICAL GAPS BETWEEN SILICON VALLEY DONORS AND LOCAL NONPROFITS

In fact, these barriers to local giving point to four critical gaps between local donors and local nonprofits that are serving to keep these groups separate. To be sure, the gaps we highlight here are generalizations, and there are exceptions to the rule. But these gaps are critical to acknowledge if we are to begin connecting the resources of Silicon Valley with opportunities to solve local problems.

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**A key insight is that both individual donors and corporate giving officers are looking for stronger organizations that can scale, rather than lots of small organizations that have real or perceived redundancies.**

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<sup>62</sup> An Inside Look: 15,330 Donors Who Are Giving to Charity with a Donor-Advised Fund. [2014]. Vanguard Charitable.

Perhaps most fundamental is a **knowledge and information gap**. As we mentioned, most local nonprofits don't understand the new Silicon Valley "giving code" that is emerging, let alone how to influence it. They know that significant wealth is being created, and they see both its potential upsides and its downsides, including the displacement of their constituents and organizations. But they don't know exactly how much money is out there, where it's going, or how to access it. Likewise, most new philanthropists don't have good information on local nonprofits and local needs: they don't know who is working on what, which local issues are most important, or who is succeeding at solving local problems. These donors are often young and busy. Even though they live "locally," their homes are typically located in affluent neighborhoods where the stark realities of economic distress aren't visible. In not understanding how the other operates, both nonprofits and new philanthropists literally cannot see the potential synergies and points of connection that could bring them into partnership.

**CRITICAL GAP**  
**KNOWLEDGE AND INFORMATION**

Also blocking the ability to connect their work is a **social network and experience gap**. Generally speaking, nonprofit leaders and new philanthropists don't move in the same social circles. For the latter, community is increasingly defined not by physical place but by socioeconomic class: a particular psychographic and a set of shared experiences that only wealth can buy. Now more than ever, their social networks are defined by which elite neighborhood they live in, where they went to college, what company they work for (or founded), which private school their children attend, or where they own their second or third home. By contrast, nonprofit leaders, in part due to the highly local nature of their work, tend to define community by place, by culture, and by ethnicity. Very few Silicon Valley nonprofit leaders personally know the region's technology leaders, and the two don't often have reason to meet. They may live only a mile or two apart, but it might as well be 1,000 miles.

**CRITICAL GAP**  
**SOCIAL NETWORK AND EXPERIENCE**

Another critical gap is one in **mindsets and language**. In talking about the world and about their work, most nonprofit leaders speak a kind of moral language that emphasizes social responsibility, social justice, equity, and the common good. Many have backgrounds in social work or other similar fields, and use shorthand jargon (words like "empower," "transformation," and "theory of change"). Needless to say, this stands in high contrast to the more utilitarian language of business, efficiency, and bottom-line profits spoken by donors. The new philanthropists are far more transactional when describing their work and their strategies. They talk about the "biggest bang for the buck" not just in their business but in their philanthropy as well. Theirs is a language of finance, of metrics, of power, of capitalism, of winners and losers—and it is starkly different from the more personal and emotional language that nonprofit leaders use to convey both the impact of their work and the vital human needs that drive it.

**CRITICAL GAP**  
**MINDSETS AND LANGUAGE**

Finally, each of these gaps helps contribute to and reinforce a fundamental **empathy gap** that is both felt and fostered on both sides. Most wealthy tech entrepreneurs don't understand nonprofits, and most nonprofit leaders don't understand business people. This, in turn, can lead to judgment. The wealthy

**CRITICAL GAP**  
**EMPATHY**

become “greedy” or “heartless,” while nonprofit leaders are characterized as “bleeding hearts” who don’t know how to think strategically or use business tools to quantify their impact. Without obvious common ground, it is easy for each group to reduce the other to a stereotype or distort them into a caricature. This gap might be the most unspoken as well as the most dangerous idea, making it extremely difficult for either group to recognize how their work, their passions, their skills, and their insights might align for the betterment of their shared local community.

## THE CHANGING ROLE OF INTERMEDIARIES

There are entities specifically designed to operate within these kinds of gaps, helping to bridge both sides. These intermediaries (also known as “platforms” in the tech industry) play an important role in connecting philanthropic supply and demand in any community. But it is critical to note that Silicon Valley’s intermediaries are changing—which is serving to further complicate the development of stronger ties between local philanthropists and local nonprofits.

It used to be that most donors in Silicon Valley conducted their philanthropy directly, either by writing checks to local causes or setting up foundations and then deciding where and how to allocate their grants, perhaps even with a professional staff member providing guidance. There were many fewer nonprofits, and the social disparities were less pronounced. But as the landscape grew more complex, and the size of Silicon Valley’s social sector grew, a few key intermediary organizations emerged to facilitate local giving: specifically, the local community foundation and United Way.

Silicon Valley for a long time had two main community foundations: Peninsula Community Foundation, with its sizeable endowment, was an important source of grants for local nonprofits in San Mateo County; Community Foundation Silicon Valley, headquartered in San Jose, helped establish a culture of giving among local companies by providing back-office services (e.g., fiscal sponsorship or platforms that create greater efficiency) for corporate giving. Meanwhile, United Way focused on individual workplace giving, having employees allocate a portion of their salary to a local nonprofit that had been vetted and approved by the group—an easy, transactional, low-touch way of giving back. However, these various groups have shifted their roles as the local landscape has evolved.

With an eye toward strengthening their efficiency and scale in Silicon Valley, the two local community foundations merged in 2007 to become Silicon Valley Community Foundation [SVCF], which is now one of the largest charities in the country, with more than \$7 billion in assets. Today, SVCF caters to the globally minded, problem-solving new establishment, with their interests in a diverse array of issues around the globe; through its donor-advised funds the foundation has sought—very effectively—to compete with national wealth management

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**But it is critical to note that Silicon Valley’s intermediaries are changing—which is serving to further complicate the development of stronger ties between local philanthropists and local nonprofits.**

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firms. At the time of the merger in 2007, \$8.7 million was allocated to San Mateo and Santa Clara County nonprofits; in 2015 just over \$14 million was allocated in discretionary grants to advance specific strategies around pressing local issues such as economic security, immigration, and local public education. This increase is modest compared to the outsized growth in giving coming from SVCF's donor-advised funds, where donor advisors recommend grants to a wide range of institutions and causes in the two counties (as discussed in Section 4, "Donor-Advised Funds"). Meanwhile, United Way Silicon Valley wasn't able to adapt its business model and survive in this new competitive landscape: in 2016 it announced its merger with the (now) eight-county United Way of the Bay Area—playing only an advisory role on how unrestricted grant monies best support the Valley, much to the dismay of many local nonprofits.

At the same time, as we've explored earlier in this report, new intermediaries have entered the picture over the last decade: wealth management firms and family offices. These national wealth management firms do not have any particular mandate around cause or locality; rather, they provide a philanthropic "banking" service as part of their suite of products for clients. Family offices, while local, are more focused on managing a family's assets (also a type of financial service) rather than solving local social and environmental problems. Effectively, these new intermediaries don't serve the linking function to local community that United Way and community foundations once did.

Other new intermediaries are beginning to step into this space but haven't yet gotten to scale. For example, to meet the rising need for more donor education, giving circles and peer networks are becoming more popular but the few knowledgeable intermediaries that currently exist are not enough to fill all of these gaps. We need more solutions, more points of connection, and more ways for donors and nonprofits to connect their work and their impact.

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**Effectively, these new intermediaries don't serve the linking function to local community that United Way and community foundations once did.**

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# SECTION 7 BRIDGING THE GAPS



The American Leadership Forum Silicon Valley [ALF] brings together diverse cohorts of cross-sector leaders to build relationships in order to tackle local challenges. ALF's programs challenge participants with leadership development and team-building experiences, including outdoor exercises such as rock climbing.

It would be easy to look at the gaps in the last section—and the larger structural disconnects they reinforce—and come to a cynical conclusion: these two sectors of society are destined to misunderstand each other, or worse, to work at cross-purposes. And why should the two be forced to connect, if they haven't found ways to do so organically? We would argue that aligning local nonprofits and donors has many crucial upsides that would significantly benefit the local community in which these two groups live and work.

What, besides the obvious—funding—would local nonprofits gain from greater alliance with the region's new philanthropists? We would argue that the talent and mindshare of Silicon Valley donors are as important as—or even more important than—their wallets. Local entrepreneurs and tech companies are known for seeking systemic solutions, for disrupting status quo industries that no longer work, and for finding new ways to solve age-old problems. Silicon Valley—the actual place, not just the corporate metaphor—could use some of this innovation right about now. In fact, this new generation of donors has the opportunity over the next few decades not only to shape how we think about philanthropy, but to solve some of our most pressing problems as a society and world, starting right here.

As we've emphasized throughout this report, it's not just individual philanthropists who can make valuable monetary *and* non-monetary contributions to local nonprofits. Companies can bring technology capabilities, strategy and scale, global networks and partners, and employees who can be deployed and inspired to give back themselves. And more established foundations have deep expertise in issues, program staff who know the ecosystem of players in various fields, and detailed knowledge about the work of local nonprofits. Together, all these forms of philanthropy have a role to play in the local community.

So why should these various philanthropists amplify their local giving when they can donate their money anywhere? (After all, as some would argue: it's private wealth and they should be entitled to do what they want with it.) There's enlightened self-interest, for starters. Wealthy entrepreneurs do care about the communities in which they are raising their children and in which their employees live; so do corporations and foundations. Can their workers afford nearby housing? Are the local schools good? Is the environment healthy? Can people get to and from work without spending hours in traffic? Are there homeless people sleeping on the street? Quality of life matters—not in just an altruistic sense but in a practical, bottom-line sense as well: it is a critical factor in continuing to attract talent to the region and remaining competitive globally.

Then there's the moral argument: the newly wealthy *should* care because they are part of the economic system that is creating these disconnects. Individually, no single person, company, or industry is to blame—it's a larger system—but these

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**In fact, this new generation of donors has the opportunity over the next few decades not only to shape how we think about philanthropy, but to solve some of our most pressing problems as a society and world, starting right here.**

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leaders and their companies benefit the most from economic growth, so they should feel some compulsion to tend to the externalities created as a result. And just as local nonprofits have much to gain from an alliance with local donors, the reverse is also true. By giving locally, Silicon Valley donors can get to know and learn from community-based organizations in a very grounded, visceral sense. Because the cause is not an ocean or continent away, it opens up opportunities for face-to-face engagement and tangible impact. Donors' involvement with local organizations might also help them build more community connections and cultivate a deeper sense of place, belonging, and even purpose. Their children and families can also become involved with local organizations and causes, learning more about what divides us as humans and what unites us.

Perhaps the most compelling reason for Silicon Valley's new philanthropists to give locally is what it would mean for the region—and for the world—if in helping improve the health and vitality of this community, they actually got it right. These donors have the opportunity right here, right now, to address persistent challenges not unique to our region: How do we tend to the least well off in our society? How do we manage sprawl and growth, and design cities and communities that are affordable and healthy? How do we create innovative and thriving schools that prepare our children and workers for the future? How do we ensure that the jobs we are creating are not just for the most highly educated, but also for diverse citizens? How do we reinvent our democracy to function more effectively in a technology-enabled world? How do we innovate in local government and break down silos to solve regional problems? All of these questions are begging for solutions and answers that we believe the region's emerging philanthropists are poised to help uncover and create.

One could argue that this community—in fact, *any* local community—is a microcosm of all the problems that ail us nationally and globally, part of a larger system but also a fractal of the whole. And yet Silicon Valley isn't just any community. It is an epicenter of revolution, a place where rules get broken and radical thinking leads to breakthrough ideas that forever change the way whole systems operate. Directing both their wealth and their ingenuity locally would create an opportunity for these budding philanthropists to find new solutions to seemingly intractable problems and then adapt those solutions to other communities, cities, regions, and even nations. Ever in search of disruption and scale, why shouldn't this new wave of philanthropists start right here, where they are growing their companies, raising their families, and already dreaming of “the next big thing”?

And that is why we need to update the Silicon Valley giving code—to program a new way of connecting the tremendous time, talent, and treasure of the technology community with local organizations, the issues they address, and the very real people they serve.

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**Directing both their wealth and their ingenuity locally would create an opportunity for these budding philanthropists to find new solutions to seemingly intractable problems and then adapt those solutions to other communities, cities, regions, and even nations.**

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## FIVE NEXT STEPS AND STARTING POINTS

So where to begin? How do we start collectively influencing and shaping a new giving code in Silicon Valley? In the many months we spent researching, interviewing, and sense-making around these issues, we uncovered many potential next steps and starting points—most of them offered by nonprofit leaders and local philanthropists themselves. As a result, we are the caretakers of a growing database of good ideas for how to bring these groups together in alliance and partnership. Below, we share a summary of the best ideas, and hope that in doing so we will spark still more. These are a mix of both existing ideas that deserve greater investment and new ideas for filling critical gaps; many address larger structural disconnects, while others focus on communication and coordination. All of them have the same goal—to begin building networks and relationships that can help the local system work more optimally.

### Connect donors and nonprofit leaders to build empathy

Nonprofit leaders and new philanthropists need real, structured, and well-facilitated opportunities to come together and learn from one another, as well as to learn together about local issues and solutions. Donors often interact with each other at funder gatherings, as do nonprofit leaders at local events—but rarely do the two have conversations designed to further their mutual understanding of each other. In fact, we heard some trepidation on both sides: philanthropists expressed fear that such gatherings would become “pitch sessions,” while community-based organizations say they are wary of deploying staff to facilitate donor “learning” without a clear return on that investment. But as one nonprofit leader put it, these fears should not get in the way: “We need to bridge the invisible barriers between local philanthropists and local problem-solvers.” Another added, “We need better mutual understanding between donors and nonprofits.” Solutions to our regions problems will not emerge until all the stakeholders first get to know and trust one another.

One starting point would be to design “learning journeys” and experiential opportunities for each group to explore and understand the other’s perspective, such as an updated version of the “venture vans” that Peninsula Community Foundation used to run. Recently, public radio station KQED reported on a study at Stanford called “Empathy at Scale” that is exploring how to help make people care about issues such as homelessness, using Virtual Reality simulations.<sup>63</sup> In a not-too-distant future, nonprofits might strap an Oculus Rift headset on to a prospective donor to help them more deeply understand a population whose experiences in Silicon Valley are far different from theirs.

In addition, nonprofits could take tours of local companies and learn from executives about business best practices and new technologies that could

#### STEP ONE

### CONNECT AND BUILD EMPATHY

*Nonprofit leaders and new philanthropists need real, structured, and well-facilitated opportunities to come together and learn from one another, as well as to learn together about local issues and solutions.*

63 Mayrow, R. Stanford's Virtual Reality Lab Cultivates Empathy for the Homeless. [2016, June 27]. Retrieved from <https://ww2.kqed.org/arts/2016/06/27/stanfords-virtual-reality-lab-cultivates-empathy-for-the-homeless/>

augment their impact; philanthropists could take tours of local communities and learn about local needs and emerging solutions. One nonprofit leader suggested “using corporate team-building opportunities and poverty simulations to expose people of means to the lives of vulnerable people and the daily work of nonprofits that serve the community.” These visits and simulations could include direct contact with end-beneficiaries and local residents as well.

Another idea is to create more hands-on opportunities for direct engagement and connection. Volunteering and community service often serve as what one leader referred to as “gateway drugs” to greater community involvement; both could create opportunities for local nonprofit leaders and philanthropists alike to give back and learn about local issues at the same time. Board service is a particularly compelling way for tech entrepreneurs to connect with local nonprofits: they can both meet an immediate need for strong governance and learn much about their local community, its issues, and the landscape of solutions in the process.

## **Develop more educational opportunities for both nonprofits and philanthropists**

Once nonprofits and donors are connecting, we need to ensure they speak the same language. The sector needs to develop more accessible, flexible, and experiential donor education opportunities, and to continue to scale proven models such as Silicon Valley Social Venture Fund [SV2], described earlier. Research shows that participation in a giving circle helps donors become more knowledgeable and confident about their philanthropy, in turn leading to more giving, including for local causes and organizations. These experiential models are particularly appealing to new donors, helping them learn on the job and apply the same “experiment and fail fast” approach they took in building their companies. Meanwhile, workshops and training could introduce new philanthropists to the language, frameworks, and best practices of the social sector—and better familiarize them with the landscape of local nonprofits in the process.

The savviest nonprofits have already figured out how to speak the language of business and harmonize it with their social change missions, but there is still a widespread distrust of corporate language and methods within the sector that needs to be dispelled. New kinds of workshops designed to help nonprofit leaders frame and communicate the fundamentals of their work in a way that businesspeople will understand (e.g., their theory of change or strategy, their business model, their key impact metrics) could help bridge that communication gap.

### **STEP TWO**

## **DEVELOP MORE EDUCATIONAL OPPORTUNITIES**

*Once nonprofits and donors are connecting, we need to ensure they speak the same language.*

## Increase coordination and collaboration

Once relationships are built, and common language and frameworks are established, we also need more collaborative models that bring people from across sectors together to work on common problems, coordinating the vast array of resources required to drive scalable solutions.

One refrain we heard consistently from both nonprofit leaders and new philanthropists was the need for greater coordination among local nonprofits in particular. The local social sector currently comprises thousands of very small nonprofits, many with just a few employees or staff and almost no budget. This creates both fragmentation and perceived duplication of effort, and adds more noise when multiple organizations are seeking funding for the same cause. During our design sessions, nonprofit leaders generated a number of ideas related to increased local coordination, ranging from having more shared back-office services to “coalitions of nonprofits creating efficiencies in delivering services, which leads to better outcomes and clearer impact for funders.” Another leader urged the sector to create “issue-specific associations [intermediaries] focused on collaboration,” so that more efforts are deployed toward greater collective impact. Many also pointed to the need for funders to invest in these collaborations, as they can prove quite costly for nonprofits to implement without support.

Others emphasized the need for funders to also coordinate more effectively, particularly around grant application and reporting requirements. Nonprofit leaders asked funders to create more efficient mechanisms for reporting impact by creating shared standards and metrics, especially for key areas of work. As one leader put it: “We need philanthropists to align on reporting and application requirements so nonprofits aren’t spending so much time on paperwork.” Additionally, there’s an opportunity for funders to align around their approach to an issue and fund more collective-impact type projects, rather than continuing through isolated grants to encourage competition among nonprofits in a given field.

## Build nonprofit capacity and address high operating costs

Most of the community-based organizations we spoke with are excited by the move toward a greater focus on outcomes, engagement with donors, and collaboration with other nonprofits. While they might be willing to implement all of these best practices, however, the resources to do so are often lacking. They suggested continuing to raise awareness among philanthropists of the need to develop more than just programs: nonprofits desperately need updated technology, quality talent, strong infrastructure, and funding for data and evaluation, along with collaboration. Currently the “overhead” myth prevents many donors from funding these basics, to the great detriment of the local nonprofit sector.

### STEP THREE

## INCREASE COORDINATION & COLLABORATION

*Once relationships are built, and common language and frameworks are established, we also need more collaborative models that bring people from across sectors together to work on common problems, coordinating the vast array of resources required to drive scalable solutions.*

### STEP FOUR

## BUILD CAPACITY AND ADDRESS COSTS

*Most of the community-based organizations we spoke with are excited by the move toward a greater focus on outcomes, engagement with donors, and collaboration with other nonprofits.*

In particular, community-based organizations pointed to the high rents in Silicon Valley as a significant barrier to investing in scale or organizational capacity. Some suggested nonprofit rent subsidies, or encouraging businesses or foundations to provide free or affordable space for nonprofits, much as the Sobrato Family Foundation has done. The foundation has converted three Silicon Valley office business parks into multi-tenant nonprofit centers; a community of 71 nonprofit organizations now occupies a combined 333,000 square feet of office, conference, and storage space. Sobrato combines this asset with a strong general operating support program that is building a thriving ecosystem of community-based nonprofits.

These leaders also suggested that technology companies could donate in-kind items, such as computers, software, phones, or other IT infrastructure, and—critically—help nonprofits integrate, apply, and keep current with these tools. This is not a new idea, but it hasn't yet been effectively implemented, nor are there common best practices for companies and nonprofits to follow. Relatedly, they brainstormed creative ways for local companies like Lyft and Uber to create subsidized ride-sharing programs for nonprofit clients who have to commute to access services, and for whom public transportation or owning a car isn't an option.

Some of the nonprofit leaders we talked to encourage “foundations and corporations to join forces to create collective solutions for nonprofit infrastructure.” One idea that emerged is to create a Silicon Valley “local fund” that would raise philanthropic capital and then deploy it to build capacity on both sides. For example, grants might be put toward building local nonprofit leadership capacity, funding mergers/acquisitions and collaboration among nonprofits, providing back-office consolidation or shared service platforms, mapping the local nonprofit sector by issue areas, engaging donors in collective solutions, and raising the effectiveness of the entire sector by supporting the larger ecosystem of nonprofits.

## Create a culture of local giving by celebrating successes

From the philanthropists and high-net-worth individuals we spoke with, we heard repeatedly about a few donors they know who are deeply committed to local giving. It's worth highlighting and celebrating these donors more broadly as a way to engage and encourage other donors seeking to boost their community involvement. Similarly, there are a few local nonprofits that stand out as exemplars of best practice—that have figured out how to adapt to this new fundraising environment and craft compelling messages that resonate with new philanthropists. These “bright spots” should be studied and lifted up as examples to other nonprofits seeking to appeal to new philanthropists; we've cited several of them throughout this report, and we hope many more will be surfaced in the future.

More established Silicon Valley foundations can also do their part to encourage a stronger culture of local giving: they could share their own funding information with

### STEP FIVE

## CELEBRATE SUCCESSSES

*From the philanthropists and high-net-worth individuals we spoke with, we heard repeatedly about a few donors they know who are deeply committed to local giving.*

donors through briefings, workshops, and more advertising of their web-based content. They could also share lists of their grantees and what they are learning. While much of this information is already available in theory, foundation websites are often complicated to navigate, and the information isn't packaged in a way that is accessible or actionable for new donors.

Relatedly, Silicon Valley needs a central, credible place to go for good and reliable information on local nonprofits. Both GreatNonprofits and GuideStar have promising initiatives underway to target their information services to local cities and communities. We also heard from nonprofit leaders that there's a need for more "effective communication and storytelling among nonprofits in order to share our stories with donors and our local community." A number brainstormed ideas around creating a "viral giving campaign" as well as ways to leverage celebrities and social media to raise awareness around local causes. Some ideas were more tactical, such as creating a unified public calendar of all nonprofit events in Silicon Valley.

**Figure 7.1. How You Can Help Strengthen the Giving Code**

| Philanthropists   | Nonprofits  |
|---|---|
| <p>Give to issues by investing strategically in great leaders, organizations, or networks with unrestricted funding (i.e. "general operating support"). Consider pledging multi-year gifts, especially if clear milestones are in place.</p> <hr/> <p>Join a giving circle or donor network to learn about the language and frameworks of the social sector and develop your skills as a philanthropist.</p> <hr/> <p>Engage with the nonprofits and causes you support in a way that adds greater value. First ask questions and listen, seek to understand their challenges, and look for opportunities to connect directly with their clients.</p> <hr/> <p>To know if you are creating impact, don't restrict your funding to programs, but provide additional funds to cover the costs of assessing and measuring the work as well. Also consider supporting greater collaboration among nonprofits focused on the same issue.</p> <hr/> <p>Only require metrics aligned to a nonprofit's existing plans and goals, so they can standardize their reporting to funders.</p> <hr/> <p>Before starting a new organization or initiative, do your research: find others that are already engaged in the issue, and ask if they will share research or field scans about existing solutions and organizations.</p> | <p>To win unrestricted support, create a realistic, multi-year plan with clear goals, anticipated outcomes, and stated risks. Make sure the plan has a clear "theory of change."</p> <hr/> <p>Find or create learning opportunities for you and your board members to understand 1) the frameworks of the social sector and 2) what these new donors are looking for in their philanthropic investments.</p> <hr/> <p>Consider creative ways to engage your current and potential donors to advance your cause; build the cost of this engagement into your budget.</p> <hr/> <p>Develop an evaluation plan with projected costs and clear implementation. Articulate metrics that you can track now and those you will track over time. Work with your key funders to standardize these metrics.</p> <hr/> <p>Before committing to a new project or program, do research to confirm the needs. Then create a plan with clear goals and interim milestones that can be the basis for setting expectations in your organization, and with your donors.</p> |

For more information, see our Resource list in the Appendix.

## TOWARD A NEW GIVING CODE

It's important to recognize that some efforts to do the kinds of connecting work described above are already underway. Donors seeking new points of engagement with nonprofits can attend a regular "service weekend" organized by Menlo Church in Menlo Park, with each drawing 4,000 volunteers to support more than 25 local organizations. To develop greater empathy for less fortunate Silicon Valley residents, they can attend one of the "poverty simulations" offered by SV2 and Step Up Silicon Valley. Meanwhile, the Stanford Center on Philanthropy and Civil Society (PACS) is helping to educate local donors and nonprofit leaders alike on the hard work of strengthening civil society. The American Leadership Forum - Silicon Valley (ALF) continues to bring diverse cross-sector cohorts of leaders together to tackle complex local problems, with a new focus on education and urban innovation. And, this being Silicon Valley, there are some emerging technical solutions too: local nonprofits can now offer a widget on their website that allows donors to make grants directly from their DAF. Dubbed "DAF Direct," the widget was developed by Fidelity Charitable and has been adopted by Schwab Charitable and other leading DAF providers active in Silicon Valley.

And yet these efforts, while impressive starting points, are not nearly enough. As this report conveys, the local Silicon Valley community—and its nonprofits and their constituents—need more help now. Unfortunately, the timeline of new donors and the urgencies of immediate needs are somewhat at odds. By the time these new philanthropists decide on their approach and activate their giving, it could be a decade or more, and local problems may be far worse. Which is why we hope that many of these new philanthropists will read this report, take notice, and help mobilize to become part of the solution.

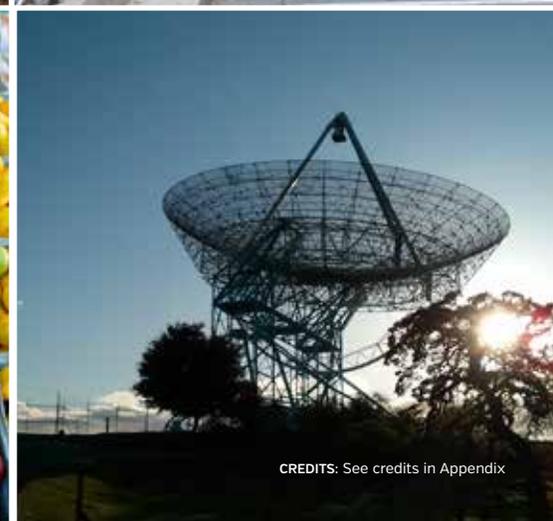
We wrote this report not only for philanthropists but also for nonprofit leaders and other Silicon Valley residents who are frustrated by the growing divides they see and are inspired to do something. We hope it will ignite a larger conversation about the future of philanthropy—and the role of all sectors—in solving local problems. In fact, we see this report as a living document, one we hope to keep updating with new insights over the next few years. We also see it as a catalyst, and hope that it not only ignites conversation but inspires a change in the larger system—first by ensuring that everyone sees the same picture and begins to speak the same language, so that they can then see how to connect their contributions to advance the greater good.

If philanthropy's true role is to serve as society's "risk capital" for social change, then the moment has never been riper to consider how the formidable philanthropic and intellectual assets accumulating in Silicon Valley could revolutionize how we address the most challenging issues of our time, starting right now, right here in our own backyards.

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**We wrote this report not only for philanthropists but also for nonprofit leaders and other Silicon Valley residents who are frustrated by the growing divides they see and are inspired to do something. We hope it will ignite a larger conversation about the future of philanthropy—and the role of all sectors—in solving local problems.**

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# APPENDIX



## AUTHORS & CONTRIBUTORS

### Alexa Cortés Culwell and Heather McLeod Grant



Open Impact founders (from left): Alexa Cortés Culwell and Heather McLeod Grant

Alexa Cortés Culwell and Heather McLeod Grant are the cofounders of Open Impact, a strategic advisory firm partnering with leaders to design and accelerate the work of social change. The firm brings together teams and leaders to envision and implement solutions for both community-level change and the most pressing issues of our day.

Heather is a social entrepreneur, author, and consultant with 25 years of experience in social change. She is coauthor of the bestselling *Forces for Good: The Six Practices of High-Impact Nonprofits*, named a Top Ten Book of the Year by The Economist. Previously she helped lead the nonprofit practice at Monitor Institute and is a former McKinsey & Company consultant. She began her career as an Echoing Green Fellow when she cofounded *Who Cares*, a national magazine for young social entrepreneurs published from 1993 to 1999. She is a Venture Partner with Draper-Richards-Kaplan and has served on numerous local, national, and global nonprofit boards.

Alexa is a longtime philanthropy advisor, speaker, and facilitator. For the past 25 years she has built and managed foundations and philanthropic initiatives for successful entrepreneurs, including serving as the founding CEO of the Charles and Helen Schwab Foundation, where she focused on issues affecting low-income populations in San Francisco and Silicon Valley. She recently completed a four-year appointment as a visiting practitioner at Stanford University's Center on Philanthropy and Civil Society, served on the Center for Effective Philanthropy's board for more than a decade, and has been a long-standing board member of New Door Ventures.

Both Alexa and Heather are longtime residents of Silicon Valley, where they are raising families and are active community volunteers.

### Open Impact Team

Incredibly dedicated and tenacious colleagues worked alongside us to produce this report: **Kate Wilkinson**, project manager and strategy associate; **Kelly Costa**, research associate. In addition, the following colleagues made important contributions: **Gretchen Miller Selfridge**, research and financial analysis; **Deeksha Prakash**, research support; **Travis Culwell/Modular Design**, design advising; and **Mary Loebig Giles**, copy editing.

### Writing and Editing

**Jenny Johnston** was a true collaborator and partner throughout the report's development. Jenny is a writer and editor based in San Francisco. Previously she served as a senior editor at Global Business Network/Monitor.

### Design

**Julie Sherman** and her exceptional team at J Sherman Studio in Newton, MA, designed the report, first page to last.

## ACKNOWLEDGMENTS

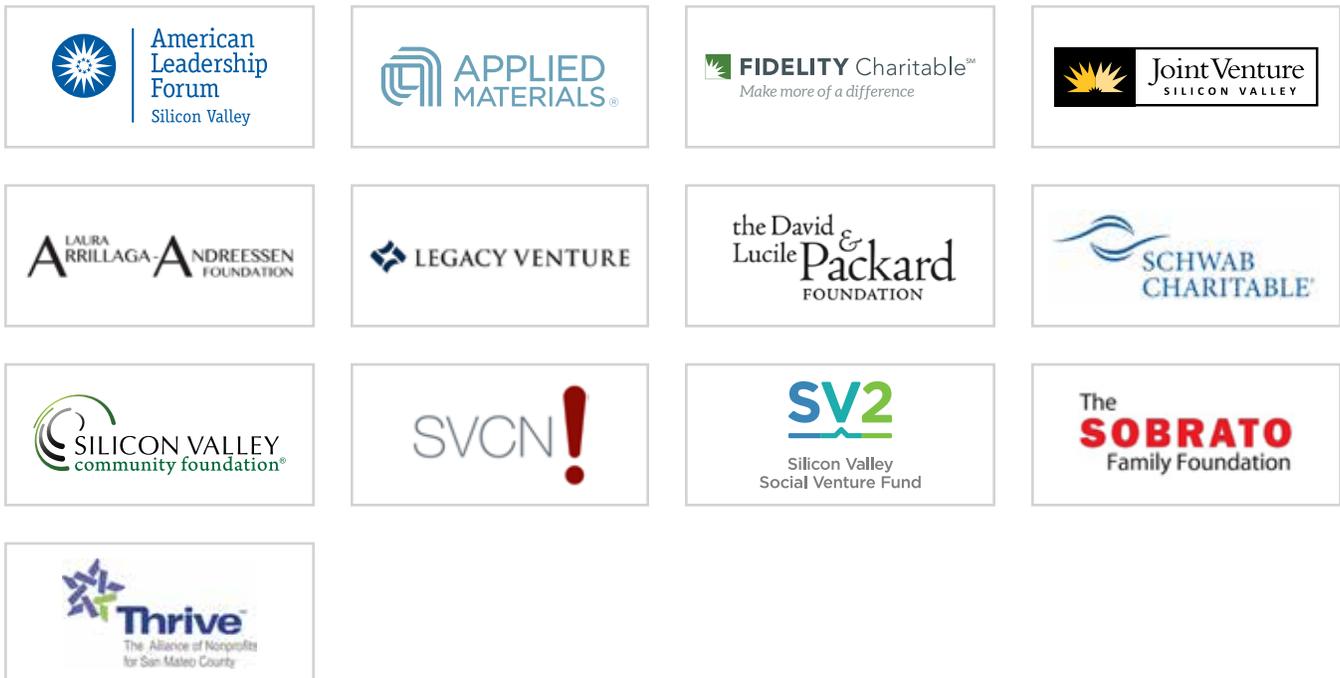
This report never would have happened without the support of a number of individuals and institutions we would like to thank here.

### Funding Partner

This report was funded by The David and Lucile Packard Foundation.

### Partners

The following partner organizations provided access to quantitative and/or qualitative data for this report:



## Advisors

The following colleagues provided invaluable feedback and insight along the way:

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*Stanford PACS, Silicon Valley Social Venture Fund - SV2*

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Rick Williams, *Sobrato Family Foundation*

Irene Wong, *The David and Lucile Packard Foundation*

## ADDITIONAL RESOURCES

### Understanding the Social Sector

The following organizations have excellent websites and collections of articles on the social sector, written for both philanthropy and nonprofit leaders:

- [The Center for Effective Philanthropy](#)
- [The Chronicle of Philanthropy](#)
- [Grantmakers for Effective Organizations](#)
- [Stanford Social Innovation Review](#)

And we recommend two excellent books that provide an overview of both high-impact nonprofits and philanthropy:

- *Forces for Good: The Six Practices of High-Impact Nonprofits*  
by Leslie R. Crutchfield and Heather McLeod Grant  
[2nd edition, 2012]
- *Giving 2.0: Transform Your Giving and Our World*  
by Laura Arrillaga-Andreessen [2011]

### Workshops and Events

These organizations provide a variety of high-quality workshops and educational events for donors and nonprofit leaders alike:

- [Giving 2.0: MOOC](#)
- [Stanford Center on Philanthropy and Civil Society](#)
- [Stanford Social Innovation Review: webinars, conferences](#)
- [Sobrato Family Foundation: Thriving Nonprofit Sector Speaker Series](#)

The following also offer workshops, events, and support, primarily for nonprofits:

- [Silicon Valley Council on Nonprofits](#)
- [Thrive, The Alliance of Nonprofits for San Mateo County](#)
- [Association of Fundraising Professionals, Silicon Valley Chapter](#)
- [CompassPoint](#)

## Donor Giving Circles/Education Programs

Whether formal or informal, giving circles provide a space for collective giving and learning based on shared interests or relationships. Here are some of our favorites:

- [The Silicon Valley Social Venture Fund - SV2](#)
- [Full Circle Fund](#)
- [The Philanthropy Workshop \(TPW\)](#)
- [Spark](#)

## Grantmaking and Nonprofits in Silicon Valley

While not comprehensive, the following local foundations list their grantees by issue area and strategy:

- [The William and Flora Hewlett Foundation](#)
- [The David and Lucile Packard Foundation](#)
- [Sand Hill Foundation](#)
- [Silicon Valley Community Foundation](#)
- [Sobrato Family Foundation](#)

You can also find more information on specific Silicon Valley nonprofits, using the following online platforms:

- [Charity Navigator](#)
- [GiveWell](#)
- [GreatNonprofits](#)
- [GuideStar](#)

*Our gratitude to the team at the Laura Arrillaga-Andreessen Foundation for providing many suggestions and additions to this list.*

# DEFINITIONS AND METHODOLOGY

## Working Definitions

**High-net-worth individual (HNWI):** A person with a net worth of more than \$5 million, excluding their primary residence.

**Local giving:** All charitable donations to community-based organizations (CBOs) in San Mateo and Santa Clara counties from funding sources based in these counties. For information on high-net-worth individuals, the report uses a minimum donation level of \$5,000 per year to a CBO.

**Active public charities/foundations/nonprofits:** For the purposes of this report, we define “active” public charities as those that filed a 990 form within 24 months of the IRS Business Master File date (December 2015) and report \$25,000 or more in revenues. Technically, “active public charities” comprise both nonprofits (501-c3s) and foundations. For ease of reading in our report, we use the word “foundation” to refer to grant-making organizations and the word “nonprofit” to refer to all other charitable organizations that receive grants.

**Community-based organizations (CBOs):** Within the category of “nonprofits” we define “community based organizations” as those nonprofits that focus the majority of their work in Santa Clara and San Mateo counties, as differentiated from other nonprofits which might be based here, but which serve regional, national, or global populations.

**Non-community-based organizations (nonCBOs):** Active public charities or nonprofits with a mission that expands beyond Santa Clara and San Mateo counties, and which serve regional, national, or global populations.

**Silicon Valley:** In this report, we define Silicon Valley as San Mateo and Santa Clara counties, a region of 1,738 square miles and 2.6 million people, according to the US Census. Some researchers include neighboring San Francisco County in their definition; we have chosen not to include it here as there are substantial differences that matter for the focus of this report.

## Quantitative Analysis: Sources and Methodology

### STATE OF SILICON VALLEY

Several seminal data sources, publicly available, were reviewed and cited for our insights and statistics about the state of Silicon Valley. We want to acknowledge our reliance on the “2016 Silicon Valley Index,” prepared by Rachel Massaro and released by Joint Venture Silicon Valley. Each year, the report publishes data and highlights challenges that inform regional decision-making. The Indicators website is a project of the Silicon Valley Institute for Regional Studies, housed within Joint Venture Silicon Valley, a non-profit public-private partnership based in San Jose, California.

## **ACTIVE PUBLIC CHARITIES, COMMUNITY-BASED ORGANIZATIONS AND NON-COMMUNITY-BASED ORGANIZATIONS**

Active public charities in Silicon Valley, as well as the subsets of community-based organizations and non-community-based organizations were determined by an analysis of the IRS December 2015 Business Master File of 501(c)(3) organizations provided by Urban Institute's National Center for Charitable Statistics. Though the Silicon Valley Community Foundation is categorized as a Public and Societal Benefit public charity, in this report, SVCF is referenced primarily as a funder. With \$2.33B in 2015 revenues, SVCF would be considered an extraordinarily large nonCBO, and its inclusion would skew the analysis of other data.

Distinctions were drawn between community-based organizations and non-community-based organizations (see Working Definitions) through a review of each organization's primary purpose, as reported to the IRS using The National Taxonomy of Exempt Entities (NTEE) "major 12" categories. This was bolstered by information available through GuideStar and the websites of the nonprofits themselves. Only a few active 501(c)(3) public charities in Silicon Valley are coded "mutual benefit" or "other" by the IRS. Their small number and low revenues were not included in Figure 3.2. Nonprofits reporting more than \$500,000 in revenues were examined individually, and a majority of organizations with revenues between \$100,000 and \$500,000 were also verified. Generally, nonprofits reporting less than \$100,000 in revenues were categorized as community-based organizations after spot-checking by researchers.

In addition, Business Master Files from both December 2005 and December 2010 were secured to benchmark the growth in number and revenues of Silicon Valley public charities and private foundations over the past 10 years, informing Figures 3.1, 3.2, and 4.1.

## **STATE OF NONPROFITS**

Various datasets, acquired specifically for this report, were reviewed to better understand trends related to the state of nonprofits in Silicon Valley. These included anonymous and aggregated internal survey data collected from Silicon Valley-based grantees of The David and Lucile Packard Foundation (2013) and Sobrato Family Foundation (2013–2015), as well as the 2013 Nonprofit Finance Fund survey segmented for Silicon Valley-based nonprofits.

To expand on this data, Open Impact (formerly known as Philanthropy Futures) designed and fielded an additional survey in March 2016 to nonprofits in Silicon Valley with 130 responses. To reach these nonprofits, mailing lists from the following sources were used: Thrive, The Alliance of San Mateo County Nonprofits; Silicon Valley Council of Nonprofits; The David and Lucile Packard Foundation; and Sobrato Family Foundation.

## HIGH-NET-WORTH INDIVIDUALS

Data from Phoenix Global Wealth Monitor was procured and analyzed to determine wealth in San Mateo and Santa Clara counties, including national and state comparative information.

Silicon Valley Social Venture Fund [SV2] provided anonymous and aggregated internal-survey data from its membership, which provided insight into their attitudes and behaviors related to philanthropy, and also the effect of educational and experiential programs on their giving.

## INDIVIDUAL GIVING

Individual giving in real dollars from 2008–2013 by Silicon Valley residents was calculated using contributions reported on itemized tax returns, available in IRS Statement of Income Datasets, 2008–2013. Figure 4.1 giving rates are itemized contributions as a percentage of adjusted gross income—methodology utilized by The Giving Institute’s annual “Giving USA” philanthropy reports and *The Chronicle of Philanthropy*’s “How America Gives” research. Tax return itemizers make approximately 80 percent of donations by individuals in the US.

## FOUNDATION GIVING

General conclusions were made about local foundation giving priorities and trends, rather than formal statistical analysis, by reviewing grants since 2006 by Silicon Valley-based foundations to local organizations, using Foundation Center’s *Foundation Directory Online* (FDO) and *Foundation Maps*. Representative but not comprehensive, these databases include grants of more than \$10,000 made by foundations with a total annual giving of at least \$5 million; an assortment of grants of less than \$10,000 made by these foundations; and an assortment of grants of all sizes made by foundations that give less than \$5 million annually. Variations in Form 990 reporting and timing of uploads means grantmaking information for local funders was generally complete through calendar year 2013. These sources were used to develop Figures 4.3, 4.4, and 4.8.

## DONOR-ADVISED FUNDS

Fidelity Charitable and Schwab Charitable provided aggregated and anonymous data about giving in Santa Clara and San Mateo counties by SV-based donor-advised fund holders, including number of accounts and total giving since 2005, described in Figures 4.5 and 4.6. Silicon Valley Community Foundation donor-advised fund data came from SVCF’s audited financial statements, published reports, and information about 2015 grants published on the SVCF website. As SVCF’s 2014 data was unavailable through FDO, Figure 4.3 includes SVCF giving data from 2010–2013 and is inclusive of all sources of grant contributions from SVCF, including donor-advised funds and discretionary grants.

## CORPORATE PHILANTHROPY

Self-reported corporate giving data in Figure 4.7 was analyzed for the years 2007–2015, using the “Top Corporate Philanthropists” lists published annually by *Silicon*

*Valley Business Journal*. Though growth in giving is consistent with other sources, because it is an optional, self-reported survey and locally focused, it does not provide a full representation of the corporate-funding landscape. Growth in overall corporate giving in Figure 4.8 was sourced using FDO and Foundation Maps.

## Qualitative Data & Analysis

We conducted qualitative research in order to surface insights, experiences, and perspectives that would further illuminate our quantitative data and the existing literature. Over a six-month period, we engaged more than 300 Silicon Valley stakeholders, holding confidential interviews and discussion sessions with high-net-worth individuals, wealth advisors, nonprofit executives, foundation and corporate giving officers, and sector thought leaders:

- Most of the individuals we engaged had already begun their philanthropic journey and were over age 40. Though there was a heavy weighting of women in our sample, overall these individuals were largely representative of the high-net-worth philanthropist population in Silicon Valley. To broaden our research, we conducted targeted interviews with individuals and/or wealth advisors representing a wider array of perspectives, including Millennials or specific ethnic populations.
- The foundation program officers represented private foundations with significant or sole focus on granting in Silicon Valley.
- The corporate giving program officers were from a broad array of Silicon Valley-based corporations.
- The nonprofit leaders were executive leaders of a wide variety of nonprofits operating in Silicon Valley.

### IMAGES FROM PAGE 11

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