

CEO of the Year: The Truth Seeker

The Bill and Melinda Gates Foundation's Patty Stonesifer can remake the world of philanthropy, but it's a long and difficult road

By Chris Winters

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Two key moments took place last year in the short history of the Bill and Melinda Gates Foundation that will have lasting effects on the way philanthropy works in this world. One was the June announcement that Omaha, Neb., investor Warren Buffett would give much of his fortune to the Gates Foundation's already substantial endowment (it stands at \$31.9 billion today, including the first installment of the Buffett gift). The second came shortly afterward, when the foundation's chief executive, Patty Stonesifer, tapped out an e-mail to the foundation's grant recipients. "As we grow, truth-tellers will become ever more important to us. So please: Let us know when things are going well, and even more importantly, when they aren't."

With those words, Stonesifer articulated the central challenge the Gates Foundation will face internally over the next year and beyond. The Buffett gift stipulates that in addition to the foundation's giving away 5 percent of its endowment per year, which tax laws currently mandate, the foundation will by 2009 have to give away all of the amount that comes in from Buffett each year, essentially doubling the foundation's donations to more than \$3 billion annually.

Already far and away the largest philanthropic organization in the world, the Gates Foundation is preparing for growth that is faster and larger than has ever happened before to any foundation or nonprofit organization. For a foundation that seeks to eliminate major world diseases, support development in poor countries and enhance the U.S. public education system, such growth is to be expected, and is even necessary.

But by calling for the truth to be told about the foundation's grants, Stonesifer is breaking with tradition as it had been practiced by the old industrial-money foundations set up by the Fords, Rockefellers, Carnegies and Mellons.

"I think there's no question she's identified the problem," says Joel Orosz, distinguished professor of the School of Public and Nonprofit Administration at Grand Valley State University in Grand Rapids, Mich. "The biggest problem always is getting the straight information about the grant. Everyone you talk to is interested in the success of the grant."

That includes the program officers who have a personal stake in seeing their programs succeed, the nonprofits that carry out the programs and depend on the grants for their livelihood, and even those tasked with evaluating the success of the grant. These lead to what Orosz calls a "conspiracy of silence," because no one wants to see failure. The grantees, no matter how much good to society their programs may accomplish, don't want to threaten the loss of their funding and are unlikely to bite the hand of the Gates Foundation.

"They need to set up an atmosphere where you can be the messenger going to the king and not get your head chopped off," he says. "When you've got a ton of money, it's hard to say no to people who are doing good things."

In sheer size, the Gates Foundation is the city on the hill that all other foundations and nonprofits will look to as a model of how to succeed ... or not. As chief executive, Stonesifer is in a unique position to carry out her mandate of openness. Of the four key decision makers within the Gates Foundation, Stonesifer is the only one who is not a Gates herself. (The fourth is foundation co-chair Bill Gates Sr., the father of Microsoft chairman Bill Gates III). But she has the trust and ear of the Gateses in managing their fortune, and her task is to run the business of parceling it out.

"If this foundation works, it's because of Patty," the younger Bill Gates told The New Yorker in 2005. "She is one of the best managers I have ever known."

Stonesifer, 50, who was traveling and unavailable to contribute to this article, grew up the sixth of nine children in Indianapolis, where her father ran a food bank supported by the Lilly Endowment. She was the top editor at a computer book publisher when Microsoft came calling. She grew to prominence and wealth as the highest ranking woman executive at Microsoft, where she led the consumer division, which launched MSNBC and the Encarta encyclopedia. Stonesifer retired in 1996 as senior vice president, but it wasn't long before Bill Gates tapped her to help lead his next venture.

From the start there were signs that the Gates Foundation would be something different, and not just because of its size. The Gateses targeted specific problems in global health, development and education with the same focus and detail that they applied to developing software, and used their business acumen to parse the results and adapt accordingly to new market conditions.

Perhaps recognizing that philanthropies, unlike corporations, don't have public shareholders to hold them to account, the foundation made openness part of its credo. Its statement of guiding principles, reflective of the Gates family's beliefs about the role of philanthropy, includes the telling line: "We must be humble and mindful in our actions and words. We seek and heed the counsel of outside voices." And aware that the public eye will be watching, the foundation is working to maintain its credibility. For example, all employees fly coach class domestically, and only bump up to business class on international flights longer than five hours, when they can continue to work. At the top of the pyramid, Stonesifer is not paid a salary.

"Foundations are a strange bird," says Rick Cohen, the former executive director of the National Committee for Responsive Philanthropy. "If they screw up, what's the consequence? If you have a nonprofit saying to a foundation, 'You're not doing the right thing,' the foundation doesn't even have to listen to them. Patty Stonesifer is saying, 'Yes, it should.'"

The Gates Foundation has been open about its mistakes so far. Its program to reform U.S. public schools by breaking up larger schools into smaller units, for example, has had mixed results. One extreme case, documented in *Business Week* last June, occurred with Denver's Manual High School, in which the resulting schools were too small to support foreign language programs and sports teams, causing many of the best students to transfer to other schools. The high school was ultimately shut down, and was scheduled to re-open in the fall, sans Gates money.

At the October 2006 annual conference of Independent Sector, a leadership forum for the nonprofit world, Stonesifer said the foundation is trying to build a culture that embraces those people who point out its failures. She added that it is hard to get grantees to point out to the foundation that a program is failing, even if it's something that Stonesifer herself wants to hear. "With the kind of resources we have, we are going to have failures or we are not taking enough risks," she said.

"They don't see failure as a bad thing, they see failure as a way to learn how to be better next time, and that is a very refreshing attitude," says Diana Aviv, the president and CEO of Independent Sector. Creating a feedback loop, with the grantees comfortable saying that the foundation is heading in the wrong direction or making a mistake, is an important part of the learning process, she adds. "It's a message to the grantees and the public at large that they don't believe they have all the answers. They'll try to find out what they need to measure themselves against the goals they've set for themselves," she says.

At the current rate of philanthropic giving - \$33 billion to \$34 billion per year when the Gates Foundation ramps up - one of every 10 foundation dollars given worldwide will be Gates money, Cohen says. Their actions will have a profound influence on how the rest of the philanthropic world behaves.

The steps forward are similar to those already taken, but on a much larger scale. They have to continually seek out more outside voices, not just those of the grantees, but of people separated from the grant-making process. The Gates Foundation is assembling three advisory boards, one for each of its three areas of operations, which will provide an outsider's evaluation for the three division presidents, Sylvia Mathews, Tadataka Yamada and Allan Golston, all of whom have significant authority in approving grants.

Elizabeth Boris, the director of the Urban Institute's Center on Nonprofits and Philanthropy, says the Gates Foundation will have to make sure that those advisers will not be beholden to the foundation and the programs. In addition, the era of instant communications and the public exposure the foundation is receiving both within the philanthropic world and among the broader public are setting a higher standard for openness.

"They're much more conscious of the public impact of what they're doing," Boris says.

Rick Cohen adds that Stonesifer is already taking on that challenge: "In a way, she's carrying the burden of the rest of the sector with her as she tries to do this. The Gates Foundation at this point is in a bellwether position. What the Gates Foundation does is going to reverberate throughout the philanthropic world."

Some critics think there is still more to do. William Schambra, director of the Bradley Center for

Philanthropy and Civic Renewal at the Hudson Institute in Washington, D.C., said that not just a panel of advisers, but a rethink of how and when programs are evaluated will be needed. The reason is that failure is easy to spot in retrospect, and sometimes the flaws in the thesis or method or timing of a program were apparent from the beginning, but only visible to outsiders who weren't present at that time. The basic assumptions of the programs need to be questioned before they are put into place. "When Patty Stonesifer pulls together a panel of folks to talk about an initiative, they roll out the basic assumptions, the panel discusses the assumptions, and something in the program changes dramatically as a result of those conversations - that will be a sign that things are changing," Schambra says. "If they do business the old-fashioned way, it's going to redouble the worst aspects of philanthropy."

Stonesifer is already on record as a listener, and she's known for her relentless travel schedule, visiting program sites from AIDS hospices in Botswana to classrooms in Tacoma to hear how the people on the receiving end of Gates-funded programs are doing. And the foundation has really listened, says Judy Belk, senior vice president for Rockefeller Philanthropy Advisors, and that is something that other foundations and philanthropists should try to emulate. Others may criticize the Gates Foundation for having just three trustees (Bill and Melinda Gates, plus the hands-off Warren Buffett), or the small executive team, but Belk says numbers don't impress her so much as results. "Everything that I've seen in the areas that they've put a stake in the ground on shows they've been very consultative and open to influence," she says.

The Gates Foundation is also being influenced by the past. One early initiative from the Rockefeller Foundation was to tackle malaria, a path the Gates Foundation is now heading down. But under the Gates initiative, there's a recognition that the huge issues, such as malaria and AIDS, school reform and poverty programs, won't be solved overnight. As Stonesifer and the Gateses have said, they are in it for the long haul.

Phyllis Campbell, president and CEO of The Seattle Foundation (Stonesifer sits on its board of trustees), says that among the Gates Foundation leadership team, their depth of experience and intellect will be what drives them forward.

"You look at that group and consider the quality of the presidents at the helm of the various areas and I can't think of a better A-team that they've assembled," Campbell says. "If any nonprofit or foundation can pull it off, they will. Not without bumps in the road, but they will pull it off, and the world will be better for it."

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