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Trust-Based Philanthropy and the Shift Toward More Nuanced Donor-Doer Relationships

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Abstract

The concept of trust in philanthropy is often interpreted as an all-or-nothing binary, which can make it feel inaccessible or "non-strategic" for many donors. Our fear is that this chills, rather than encourages, broader philanthropic experimentation with power-shifting. To that end, this essay seeks to answer two questions:

- What explains philanthropic behaviors that remain stuck in a paradigm of control?
- What beliefs and assumptions can donors examine to build greater trust with grantees?

To explore these questions, we pulled in knowledge from other fields – the social sciences and for-profit investing – to shed new light. **Our essay is more about asking questions than providing answers and is meant as a provocation for challenging our collective thinking.** Hopefully, it encourages curiosity, vulnerability, and openness to greater experimentation.

Introduction

The movement toward trust-based philanthropy has sparked avenues for debate. Are trust-based approaches at odds with strategic philanthropy? Does unrestricted funding mean that funders add nothing beyond their checkbooks? Drawing from the fields of social sciences and for-profit investing, this article explores the assumptions around funder-grantee relationships to discover if a more nuanced understanding of these dynamics could drive more social change.

In recent years, the opaque dynamics of trust within the world of philanthropy have captured the attention of the social sector. We're beginning to see evidence of a shift from a culture of compliance and philanthropic control toward collaboration and grantmaking practices that recognize nonprofit leadership and expertise. The shorthand for this shift in today's parlance is "trust-based philanthropy," which the Trust-Based Philanthropy Project has most notably advanced.

Of course, it's still the early days. The growing interest in this approach—which, to be sure, some funders have practiced for decades—has not come without controversy. We've heard fears that a lack of donor direction or control might overwhelm nonprofits and concerns that trust-based giving is riskier or less strategic. We've heard frustration at interpretations that "trust-based" suggests all donors should act the same, that "trust" is an on-off switch and turning it on requires simply giving the money and asking no questions.

Is Trust About Letting Go of Control?

While one might view trust through a moral lens, our primary interest here is in trust as a rational and practical mechanism, one that mitigates risk in social systems and optimizes results. Within organizations, trust is an essential ingredient for team performance and organizational results, particularly when the goal is to solve complex problems. High-trust environments can also enable organizational "slack"—resources held in reserve, essential for innovation, adaptation, and renewal. Trust is also associated with lower staff burnout and stress and higher engagement and productivity.

In inter-organizational contexts, trust influences direct economic outcomes, like lower transaction costs and increased sales. It affects relational outcomes, like increased strategic flexibility and improved information sharing. In short, a higher-trust environment can support the conditions for greater productivity and innovation, especially in complex and dynamic environments.

A Low-Trust Environment is a Poor Match for Philanthropy

Douglas McGregor's seminal 1960 business management book, The Human Side of Enterprise, introduced a framework for understanding how assumptions and mindsets shape the design of organizations and approaches to managing people. McGregor presented two ends of a spectrum—Theory X and Theory Y. The two theories describe radically different beliefs about the motivations of workers and how best to create the conditions that produce the intended results.

Theory X is control-based. It involves micromanagement, short time horizons for deadlines, and incentives designed for predictable, tangible results. Theory X assumes workers have limited expertise and low motivation. Risk, in Theory X, is best mitigated by centralized, top-down control. In short, it's a carrot-and-stick, low-trust environment.

Theory Y is decentralized and participatory. It assumes that when people take ownership of their work, they do it more effectively. Theory Y sees workers as motivated and capable. It recognizes worker expertise and encourages their responsibility and centrality in complex problem-solving. In short, it's a collaborative, high-trust environment.

In reading McGregor's research and its application in other sectors, two things struck us. First is the similarity between the experience of workers in a Theory X environment and reflections nonprofit leaders share about their philanthropic relationships. Second is the inadequacy of a Theory X model for solving the complex problems that ambitious nonprofits and nongovernmental organizations seek to address.

"Where too many of us are, unfortunately, is stuck," wrote Kathy Reich, Director of the BUILD Initiative at the Ford Foundation. "We are stuck in a place where a lack of trust in nonprofit leaders and organizations and a desire to control our financial resources lead us to restrict funding and otherwise behave in ways that impede progress and success for the very organizations, communities, and causes we seek to support."

The Theory X dynamic plays out as a familiar annual ritual in the social sector: Funders give resources with tight control mechanisms—single year, project restricted, with their own metrics for success. To secure funding, nonprofits work hard to comply with those grant terms, which inhibit investing in innovation or getting ahead of the growth curve. The terms also leave little buffer for inevitable business uncertainties. The ritual begins anew year after year.

"The temptation toward technical and tactical is strong," wrote Jara Dean-Coffey, CEO of jdcPARTNERSHIPS. "If production and market share are core to the endeavor, it makes sense. But if it is about people and for people, then we must become more comfortable with the unpredictability of human dynamics. Moving toward comfort with multiple truths is challenging in a sector prone to binaries and simplicity."

Why not create a Theory Y social sector? Its goals and performance potential would be far better aligned with both donors' impact goals and our observations of nonprofit capacity to lead in addressing complex social issues. Observational data from organizations that have received dollars with fewer restrictions suggest this directional shift would unleash new energy, capability, and innovation into the sector.

Bridgespan's own research on the impact of Ballmer Group's large, unrestricted, multiyear grants found that when nonprofit leaders have greater resource flexibility and agency, they can strengthen their organizations and leadership ranks and steward funds with strategic rigor. These findings echo what the Center for Effective Philanthropy and Panorama Global have found through surveying and interviewing MacKenzie Scott's grantees, who similarly received large, unrestricted grants.

Is Trust About More Than Money?

All too often, discussions of trust-based philanthropy are reduced to grantmaking mechanics alone. Trust-based practices can go much deeper in the form of nonmonetary support. The Trust-Based Philanthropy Project often describes it as a values-driven approach that brings a lens of power consciousness not just to grantmaking but also to a donor's culture, structures, and leadership.

"Donors are reckoning with their power, listening to nonprofits, and shifting their practices to reflect a more collaborative and relational approach," wrote Shaadi Salehi, Executive Director of the Trust-Based Philanthropy Project. "These shifts indicate donors are indeed willing to trust—and they are seeing the strategic value of taking a relational stance over a transactional one."

In our minds, the fullest expression of trust-based philanthropy's goals is when it creates space for both parties' relative strengths and assets to fully contribute toward a shared impact objective. Solving knotty, persistent problems—the core of social innovation—is a team sport. While the incentive structures, goals, and measures of results in the private sector can be fundamentally different than those in the social sector, there is at least one for-profit investing practice that philanthropy hasn't fully adopted and arguably should—applying consistent, value-adding, relevant capabilities to increase the impact of funding.

Firms that seek to augment management's ability to build stronger, more valuable businesses often bring detailed value-creation strategies and significant expertise, either in-house or through their networks. Less-interventionist firms support entrepreneurs through thought partnerships on shared ambitious goals and ensure access to top management expertise matched to the organizations' needs. Others, particularly venture capital firms investing in earlier-stage companies, serve more as connectors, making introductions to other investors for future funding. Let's be clear: Private investors, in particular private equity firms, are not known for their wide embrace of Theory Y practices. We're highlighting how they understand their ability to add value. How does this apply to donors? There's room for all sorts of nuance in the donor-doer relationship when funders engage in an honest assessment of their assets and potential to create value beyond what nonprofit leaders can achieve on their own. But, in our experience, truly value-adding, high-intervention donor strategies are rare.

Among the most critical lessons for donors seeking trust-based partnership is to question whether the choices they make are adding to—not taxing—impact. In general, donors tend to overestimate their noncash value-add. They also tend to vastly underestimate the expertise and capability of nonprofit leaders and the hidden costs of their capital.

Rethinking the Paradigm

Aaron Horvath and Micah McElroy of the Stanford Center on Philanthropy and Civil Society push to rebalance the trust scale between donor and doer. "Consider if we focused instead on how doers can trust donors," they wrote. "Indeed, many nonprofits worry funders will leave them in the lurch or capriciously change their evaluative demands. What mechanisms exist to secure against donors' abuses of trust?"

We encourage any funder who aspires to move toward greater trust-based practices to find a paradigm whose application and questions prompt honest self-reflection—particularly around opportunities to shift power. We all should reckon with previously unchallenged, implicit assumptions that undermine the work of transformational social change.

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