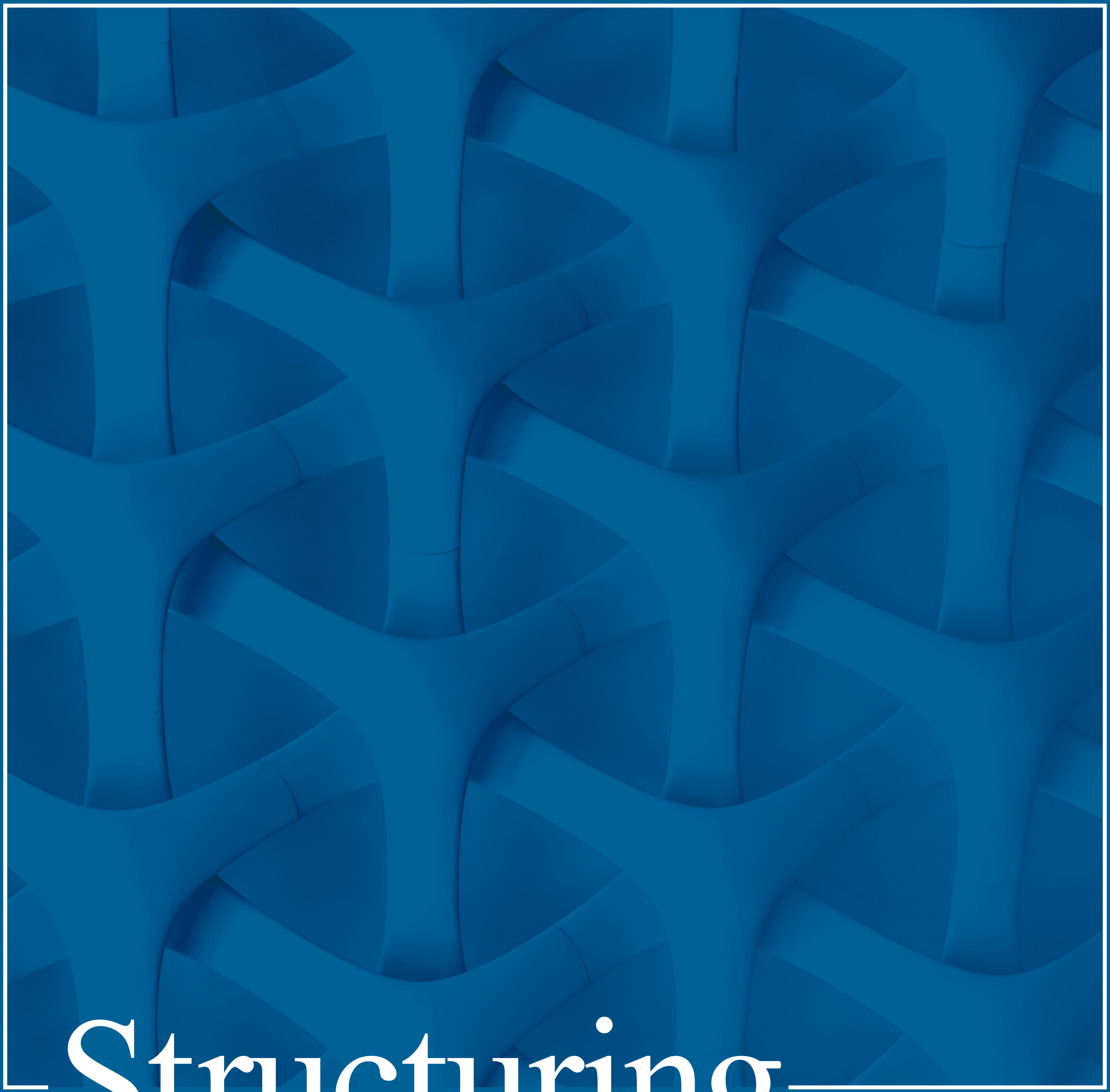

Structuring for Impact

A new approach for creating integrated engines of change.

PPG
WALTON PERSONAL PHILANTHROPY GROUP

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New Approach for Structuring Operations for Impact

During the past few years at the Walton Personal Philanthropy Group, we've researched how other founders structure their impact work: what types of entities they select and how they manage and operate those entities. We talked with 20 organizations of high net worth founders to learn about their impact structures and glean their insights for how to approach this issue. We are so appreciative to these founders and their staff for sharing their time and experiences, and though we don't share their names or specific detail here for confidentiality, we want to recognize their contribution.

Combining this research with our own experiences, we've developed a holistic approach to help founders establish new impact structures or adapt their existing structures to better meet their impact goals. We're excited to share our learnings from this work with the broader impact community, and we encourage you to share your own experiences with us.

Sarah Griego Cooch
Head of Walton Personal Philanthropy Group

Sharon Schneider
Former Director of WPPG and current Executive Director of Telluray Foundation

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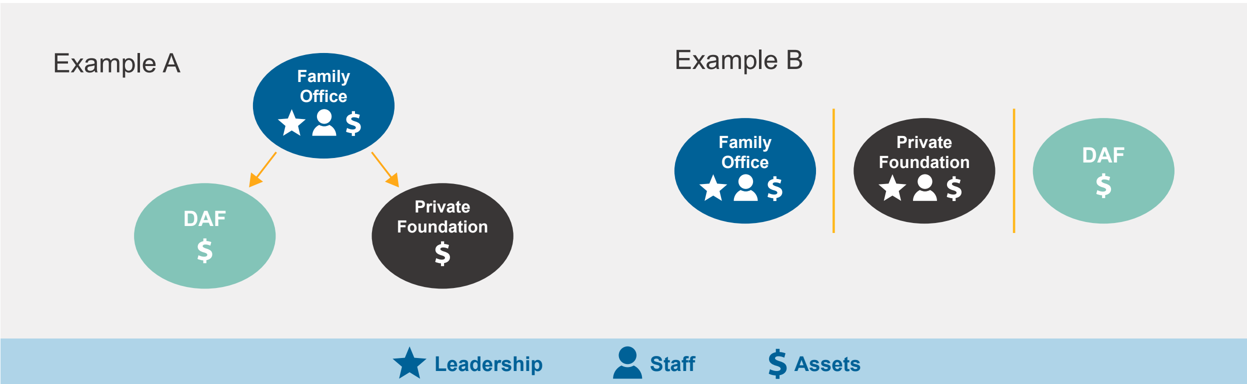
Through our research, we hoped to identify the most effective impact structure archetypes. However, it quickly became clear that there is no clear "best" archetype for the integrated approach. In fact, across the 20 founders we studied, there were nearly 20 unique models.

Even if two founders use the same types of entities, they can set up and manage them very differently. For example, one founder could centralize leadership of their impact work in their family office and use their donor-advised fund and private foundations as "checkbooks" to fund grants and investments (Example A). Another founder could have the same entity types but run them completely separate from one another: the family office manages impact-related investments, leadership/staff of the foundation implements the grants, and the founder personally directs grants from their donor-advised fund (Example B). Same choice of entities, very different impact structures.



After seeing such a wide variety of impact structures, we took a step back and realized that instead of replicable archetypes, we needed a much more powerful tool: **a holistic approach for designing a custom impact structure.**

We call this 5-step approach **Structuring for Impact.** This approach can help guide founders, their advisors and their staff through a process to select the optimal impact entity types and develop (or evolve) supporting organizational design and processes that will increase their chances of success.

Recognizing that every founder starts at a different place and has different goals, Structuring for Impact is flexible and can be tailored to any situation. It can be used whether a founder is starting from scratch or already has impact work underway. It can be used in concert with existing advisors and staff and/or leverage new advisors who focus on these areas. Finally, it can be used independently or it can leverage a consultant to move the process along in a focused way.

We share these learnings in the hopes that they'll help other founders reach their impact goals. **However, these insights are not meant to replace professional legal, tax or investment advice, so consult with your expert advisors.**

Introduction

In the not-so-distant past, philanthropy—primarily in the form of grants with no expectation or thought of financial return—was considered the gold standard for those seeking social good. But more recently, founders[1] have experimented with other kinds of financial instruments to bring desired results.

Take renewable energy, for example. Many instruments and types of capital can play a role in catalyzing the adoption of renewable forms of energy:

- an unfunded loan guarantee from a foundation's balance sheet could leverage commercial funding to build new renewable energy assets, like wind farms and solar fields;
- a low- or no-interest loan to an organization to install solar panels may allow them to significantly reduce their energy costs, freeing up funds to pay back the loan and allowing the lender to recycle the funds for another organization—building a cohort of early adopters by easing their transition costs;
- equity investments into private companies developing large-scale battery technology could lead to breakthroughs needed to store the energy created by renewable sources to be used during down times;
- investments into "stacked deck" funds as limited partnerships can catalyze investment by the mainstream capital markets in higher risk, higher impact geographies;
- advocacy campaigns could educate utility commissioners who need to update the patchwork of regulations that still largely favor fossil fuels and stymie competition from renewables in the market;
- incentive programs might target states, cities or large corporate energy buyers, providing grants, but also branding opportunities and good press, for those who reach voluntary standards for energy consumption and purchase of energy from renewable sources.

All these different instruments and types of funding may have a role to play in the transition to renewable energy, often catalyzing far larger investments from other sources of capital. Imagine if a philanthropist attempted to provide all the capital themselves in the form of grant funding? They wouldn't get very far.

For those who want to solve society's pressing issues, it is natural to expand the toolbox of their work beyond donations (grants) into loans, investments, advocacy and even business operations. Instead of a "stay in your lane" mentality, this approach might be described as "whatever it takes" to get the job done. This more holistic approach to addressing society's nuanced problems can yield powerful results while catalyzing new pots of money traditionally reserved for return-seeking investments.

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[1] We use the term "founders" throughout to mean those who seek to shape or reshape an impact organization, not necessarily the original creator of a foundation, family office or other entity.

Successfully implementing this multi-tool approach at scale requires organizational structures, advisors and staff that are prepared to achieve the founder's impact goals while avoiding legal and reputational minefields. We call this a founder's "impact structure," and it encompasses two elements:

- the entities utilized (e.g., private foundation, LLC, donor-advised fund);
- an intentional organizational design between the entities (e.g., where the leadership, strategy and assets reside; what staffing is needed; how decisions are made).

Traditionally, a founder may have had a single private foundation to serve as his/her impact structure. But increasingly, other vehicles have come into the mix, creating challenges for these pioneering founders with little precedent to guide them.

While excited and engaged in the work, many founders have nonetheless struggled to identify and adopt the optimal impact structure to support their work. Traditional structures for organizations primarily involved in grantmaking or investing weren't designed for this integrated approach: Investments and grants originate through different departments (or entirely different entities) and are led by different staff members with different skill sets; they are judged by different due diligence and measures of success and they are often accountable to different committees of the board.

Not only is this an inefficient use of time and money, but it can limit the founder's effectiveness in reaching their impact goals. Founders often find themselves with one or more of the following challenges:

- staff members are siloed and limited to either grants or investments, making their relationship competitive or hierarchical;
- decision-making, both in process and criteria, is unclear;
- unified, comprehensive reports are extremely difficult to roll up across entities or funding streams, and measuring results is even harder;
- coordination is limited to the efforts of the founders who serve as the only point of connection between entities or teams that could greatly benefit from collaboration and knowledge sharing;
- organizations and approaches are overhauled every few years because initial designs didn't fully consider the range of factors that impact effectiveness.

When founders (or their staff) seek expertise on adjusting their organization, they find little information about establishing and managing structures for impact. Compounding the issue, trusted and skilled advisors may not have an accurate picture of the priorities and preferences of the founder, leading to flawed advice. For example, a tax advisor may assume tax savings are more important to the founder than flexibility or control. This could lead them to advise a founder to commit assets to charitable entities in a way that limits future activities to those with an IRS-recognized charitable purpose. Additionally, the founder's tolerance for "headline risk" may be assumed to be much lower than it is, which could lead to conservative advice that may not reflect recent developments in IRS guidance and leave little room for innovation.

So how can a founder find the right impact structure to meet their social impact goals?

Structuring for Impact

Step 1: Identify scale and scope

Before identifying their optimal impact structure, founders must first be clear about the scale and scope of assets they'll devote to their impact-focused efforts.

How much of their assets does the founder want to devote to proactive, targeted grants, investments and/or advocacy/political activity in order to achieve targeted impact goals?

Investments made using this capital may achieve a financial return (potentially even market rate) but the **primary purpose of these assets is to achieve target impact goals for social or environmental change.**

Founders should work closely with their wealth, legal and tax advisors to determine their desired allocation to impact-focused work, both now and in the future.

Note: Given their interest in social or environmental issues, founders will likely have additional capital that is invested using some environmental or social considerations but its primary goal is financial return. While they may have some overlap and alignment in values, the primary purpose is financial return so we didn't focus on these investments in our research.

Questions to answer include:

- How much has the founder already allocated to impact-focused efforts? How much more will be allocated over time? When?
- What kind of assets (e.g., highly-appreciated stock) will be allocated to impact-focused efforts?
- What major events will impact the allocation of future funds to impact-focused efforts? For example, does the founder anticipate a major liquidity event or plan at some point to transition funds from one category to another?
- Does the founder plan to distribute all or a major portion of their impact-focused assets before their death?

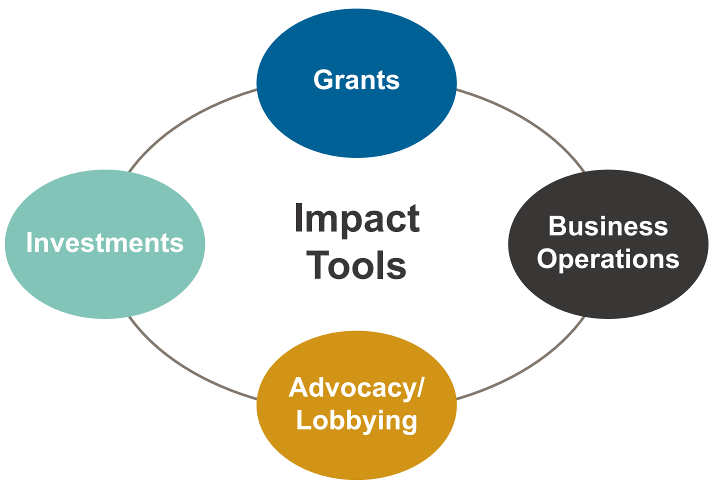
Step 2: Identify founder's preferences and priorities for each decision factor

Our research identified nine key decision factors that founders should consider as they design their impact structure. Each factor has significant implications for entity choice and organizational structure design.

After determining where they stand on all nine decision factors, the founder should then determine the relative priority of each factor. Which factors matter most to them? Which are less important? Why? This holistic understanding will be crucial for crafting the optimal impact structure. Founders can examine each decision factor on their own or with their advisors and/or staff.

Decision Factor 1: Choice of impact tools

In the past, people who wanted to use their resources to make a difference tended to focus on philanthropic grantmaking. Today's founders have a much wider and more powerful set of tools from which to choose, as indicated in the diagram.



Grants: Philanthropic gifts, typically to a nonprofit organization to support its charitable efforts.

Investments: Provision of capital made to further the founder's impact goals along with some expectation of financial return. These investments can span a wide range, from debt to equity, from market-rate to below-market-rate and across all asset classes. It is important to note that when we refer to investments, we're talking about proactive, targeted investments made specifically to work toward the founder's goals for impact. We're not referring to broad impact lenses or filters that might be used when investing a founder's broader portfolio.

Advocacy: Activities that seek to influence public policies or bring about systemic social change.
Lobbying: Activities that attempt to influence specific legislation at the federal, state or local level.

Business operations: A business that provides a product or service that furthers the founder's impact strategies. Such an entity can either be acquired or set up as a new for-profit or nonprofit subsidiary/affiliate of the "parent" family office vehicle.

The choice of impact tools clearly influences entity selection, as not all entity types are legally able to implement all of these options.

Considerations:

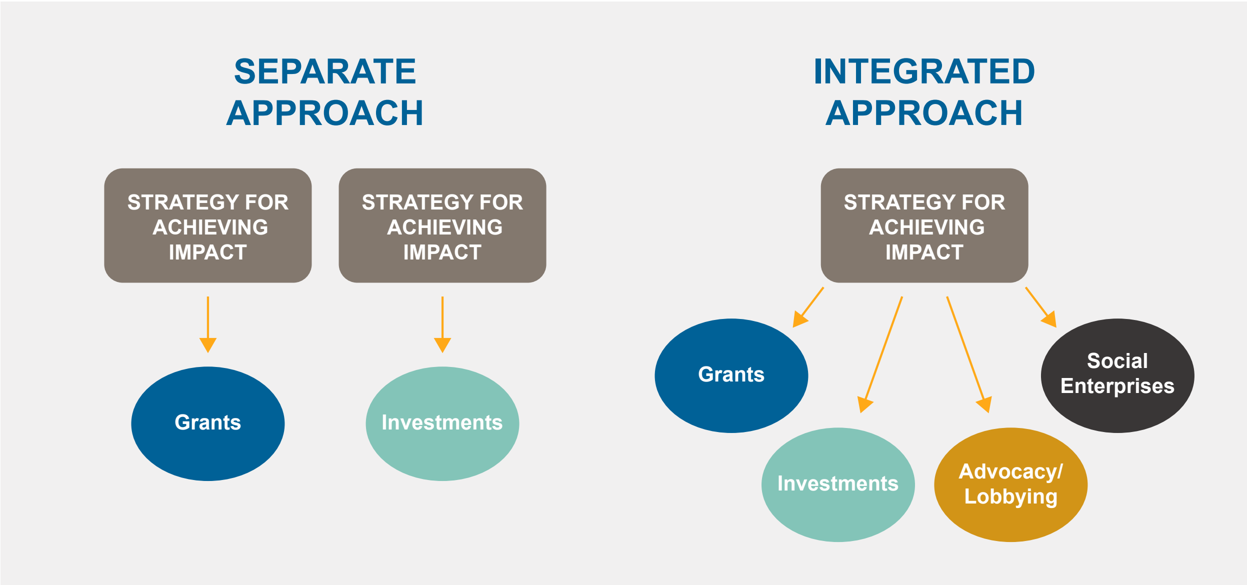
- Which types of impact tools does the founder use now?
- Which do they plan to use in the future?
- Does the founder prioritize a tool over others? Why?
- Are any impact tools out of consideration? Why?

Decision Factor 2: Strategy for achieving impact goals

A founder's **impact strategy** is their plan for how to achieve their social or environmental goals using grants, investments, advocacy/political activity and/or business operations. Impact strategies can vary from a relatively loose thematic approach to a detailed plan based on a theory of change for what must take place to achieve the goals.

It's important to note that an impact strategy is different than a traditional investment strategy, which identifies the financial goals, asset allocation, risk profile and liquidity requirements that drive the selection of different financial products to achieve the desired mix of risk and return.

We've found that founders typically utilize impact strategies in one of two general ways:



Develop and implement distinct impact strategies for each type of impact tool (grants, investments, etc.), even if they address the same issue or impact goal.

Develop and implement a core impact strategy that guides decisions about when and which tools to use in order to work toward their impact goals.

Founders that utilize a "separate" strategic approach typically want to maximize autonomy between the impact tool types. They, therefore, set up separate entities for each, with little interaction between them. On the other end of the spectrum, founders that use a truly "integrated" strategic approach try to minimize complexity and build for coordination. Accordingly, they choose entities that utilize a range of impact tools (e.g., LLC) and set up as few entities as possible.

Considerations:

- Which strategic approach does the founder use now: separate or integrated?
- Does the founder anticipate this changing? How?

Decision Factor 3: Prioritization of tax considerations

The U.S. government provides tax deductions as an incentive to encourage people to donate their funds to charitable causes (presumably reducing the burden on the government to provide services). Tax deductions can be realized by donating to nonprofit, tax-exempt 501(c)3 entities, either directly to a public charity or to a nonprofit tax-exempt entity that will provide grants to other organizations (e.g., private foundation). As a result, numerous founders include a tax-exempt entity for their impact structures in order to minimize tax obligations, particularly in years with high income or landmark liquidity events. Some streamline the process (reducing cost and administrative burdens significantly) by establishing a nonprofit corporation that is fiscally sponsored by a large tax-exempt public charity.

However, our research found that not all founders highly prioritize short-term tax deductions in connection to their impact work. Some do not require tax deduction due to other financial factors. Others are willing to wait to obtain the deduction, so they're open to using a for-profit entity like an LLC and getting the deduction when the LLC subsequently makes grants to individual public charities. Some establish a foundation (or a fiscally-sponsored nonprofit) that they fund on an annualized basis, leaving considerably more flexibility to determine the best tools to achieve impact while preserving some tax advantages. This can be done from a trust or other entity.

Another factor to understand when considering the relative importance of tax savings to the founder concerns operating expenses. If operations are located inside a private foundation, for example, they are all paid for with tax-advantaged dollars. As a trade-off, all activities must further the charitable purposes of a 501(c)3 entity, within the scope of the definition of "charity" established by the IRS but determined by the founder and set forth in the Form 1023. Staff and operations located in LLCs, family offices or other for-profit entities can be more flexible, but may require post-tax dollars. For some founders, the greater freedom and flexibility of for-profit operations is worth the loss of whatever tax deduction may have been gained by using a nonprofit entity to house all impact operations.

Considerations:

- How important is it to the founder to realize short-term tax deductions?
- Does the founder anticipate a future high-income year or liquidity event that they would like to offset with a tax deduction from their impact-related work?
- What kind of assets does the founder plan to use for their impact-related work? Cash, highly-appreciated stock and real assets are treated differently for tax purposes.

Decision Factor 4: Desired level of control

Using their own assets for social change is a personal passion for most of these founders and, naturally, they want to be able to control the process.

In general, founders can maximize their control by using for-profit entities (e.g., LLCs, family offices, venture capital funds), because such entities provide them with discretion regarding assets, activities, compensation and expenses.

In contrast, nonprofit entities (e.g., donor-advised funds, private foundations) must comply with restrictions that reduce the founder's control in exchange for the reduction in taxes. Restrictions on foundations include:

- minimum annual distribution requirements ("the 5% payout"),
- excess business holding limits,
- lobbying restrictions,
- restrictions on grants to individuals,
- self-dealing restrictions on property, credit, goods and services, income and expenses.

Donor-advised funds (DAFs) provide even less control than private foundations because the founder no longer officially controls the assets in the fund. To establish a DAF, a founder donates assets to a public charity that hosts the fund. The founder can advise the public charity on grants and investments to be made out of the fund, but as an advisor only; the founder no longer has legal control. This may be problematic if an investment (similar to a program-related investment) made through the DAF does not go as planned. The founder has no legal recourse with the investee because the contract was made between the fund sponsor and the investee, not the founder.

Considerations:

- How important is it to the founder to have full control of the entity's assets and activities?
- Is the founder comfortable with the restrictions of non-profit entities?

Decision Factor 5: Comfort with public identity

Public identity is a key consideration for many of the founders we interviewed. For a variety of personal and strategic reasons, some want to keep their impact work as private as possible. Others have decided that developing and harnessing a public identity for impact work can help them advance their impact strategies by attracting other founders and supporters to the issue. Many others fall somewhere in between, preferring to make portions of their impact work public while keeping some private. This can be particularly useful when developing a new line of work that is "not ready for prime time" or if the founder wants to avoid unintended market signals about future investments.

Harness for Good

- Carefully craft the brand to harness its power to aid change efforts.

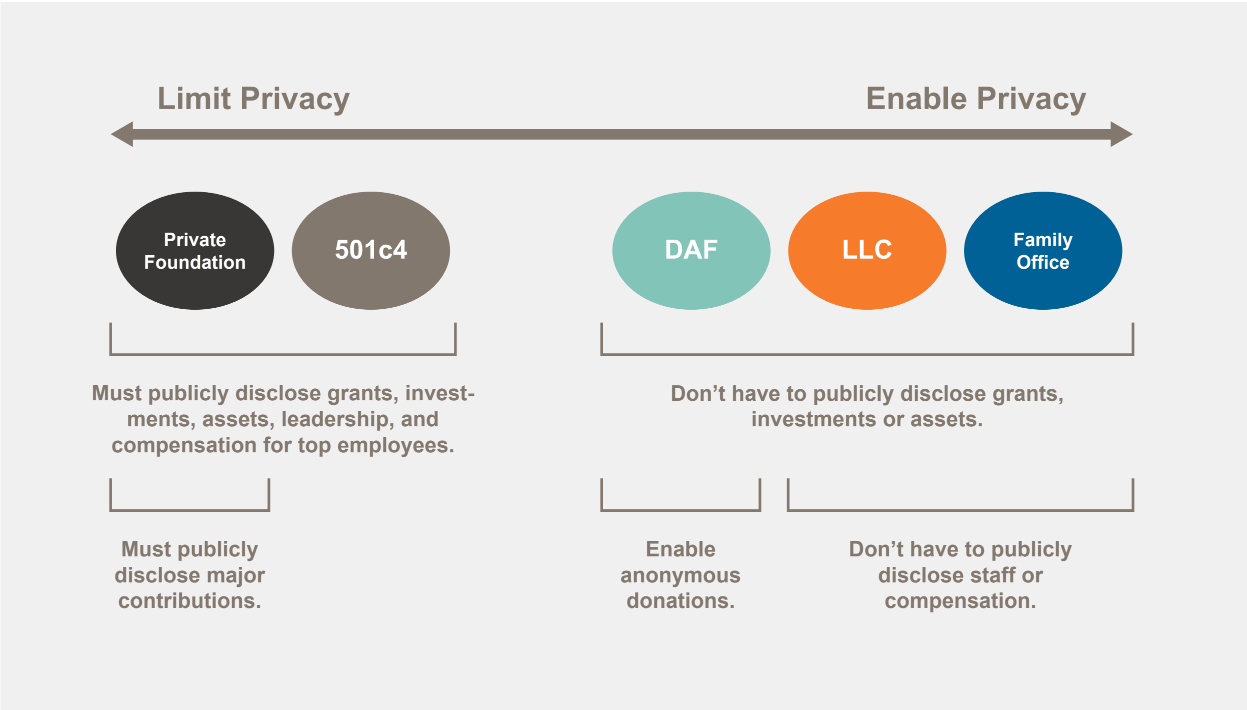
Modulate

- Make some activities public, while keeping others private.

Keep private

- Preserve privacy and maintain low profile.
- Avoid attention for controversial grants/investments.
- Develop/test strategic approach without scrutiny.

Each of these are valid approaches, and it's important for a founder to be clear upfront about their preference because some entities allow more privacy than others. For example, private foundations must publicly disclose their grant and investment activity, employee compensation as well as the names of board members and key contributors each year in their IRS tax filings.

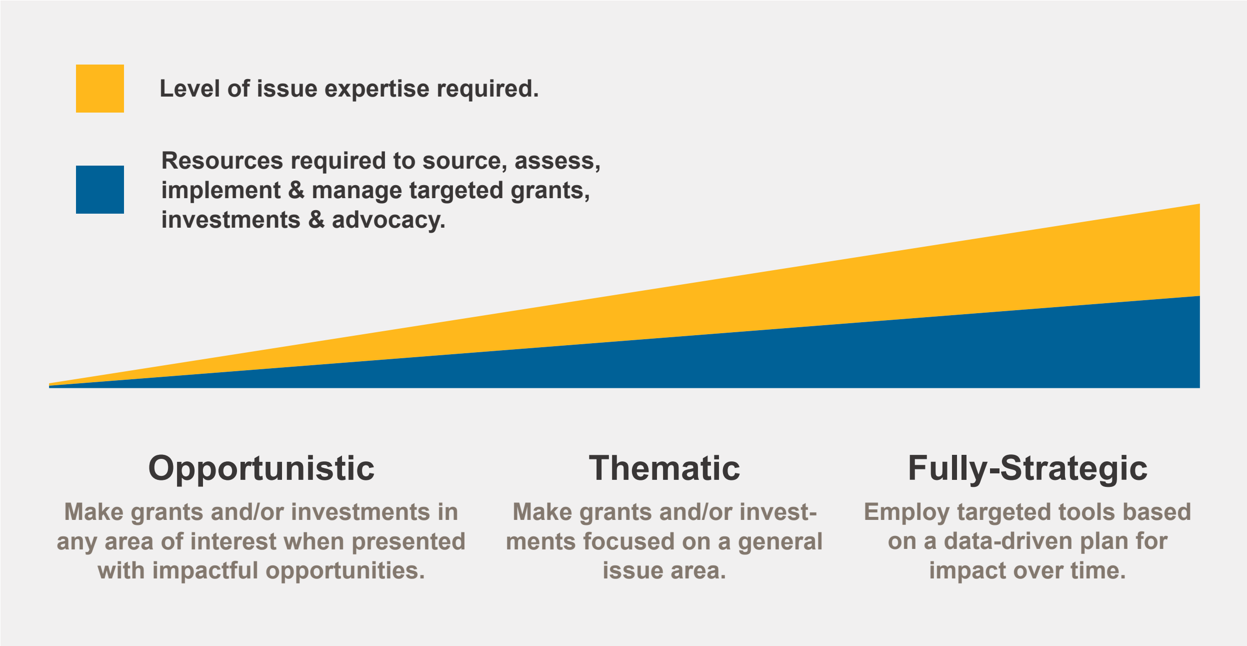


Considerations:

- How critical is privacy about their impact work to the founder?
- What benefits could be gained by having a public presence about the impact work?
- Even if the founder is comfortable with a public presence for the work, are there some grants/investments that they would prefer to keep anonymous?
- What kind of public identity/profile do the founder and their family have now and want in the future? Do they want to remain very private personally even if their impact entities have a public presence? Or is the founder willing to serve as public figure to help push the impact work forward?

Decision Factor 6: Appetite for entity building

We found a wide range of appetites for entity building among the founders we studied. This is partially due to personal preference and partially to the demands of their strategic approach.



Some founders believe that their ambitious impact strategies require a sizeable expert team to execute successfully, so they build their impact structure and hire accordingly. Others want to operate as leanly as possible, so they choose a more opportunistic or thematic approach that allows them to leverage family office staff, manage the work themselves and/or choose entities that require little staff administration. Either way, it's important for a founder to be clear about their impact strategy preferences because they clearly impact the required structure.

Considerations:

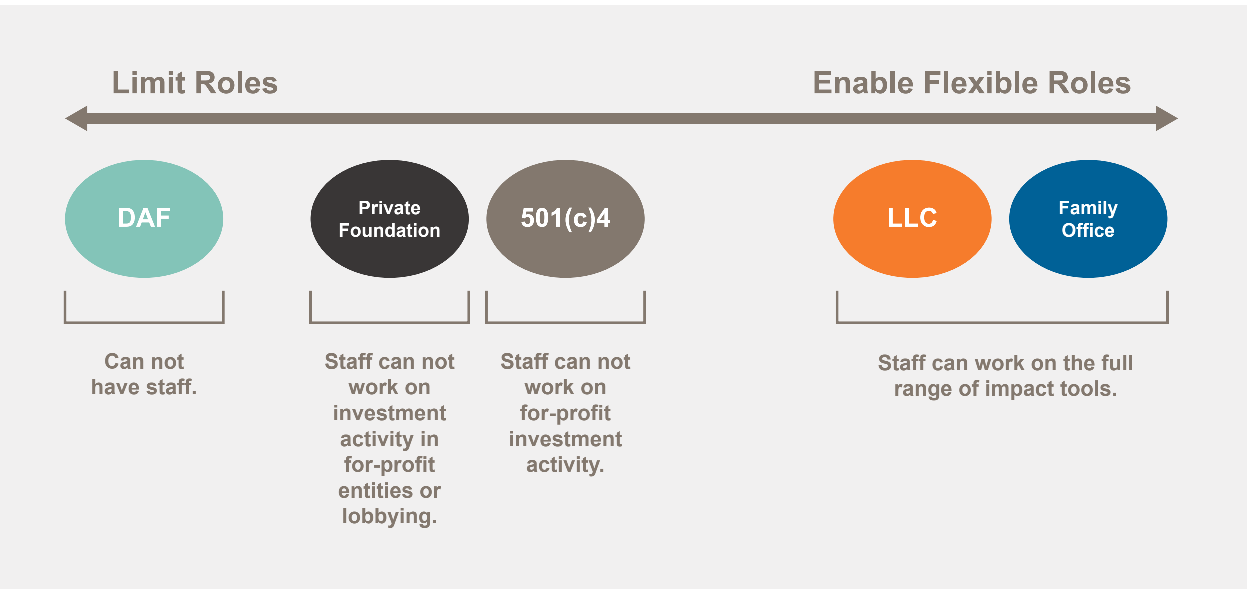
- Does the founder's chosen strategic approach require significant staff to implement?
- How comfortable is the founder with funding an impact structure with staff?
- How much does the founder want to be personally engaged in the impact work?
- What impact structure and staff is currently in place? What could be outsourced versus supported internally? What existing resources does the founder have that can be leveraged, such as a family office?

Decision Factor 7: Leverage top talent

As with any organization, decisions about who will lead and execute the strategies are key. In our research, we found that the way a founder's impact structure is designed can have major implications for how they can leverage and compensate talent. In fact, almost every organization we studied identified staffing and compensation as challenging issues. As integrated impact structures become more common, these issues will need attention.[2]

Three key talent considerations emerged in our research:

1. **Flexibility of staff usage.**
   Some entity types allow staff to implement a wide range of impact tools, while others are more restrictive. This is important to consider when founders select their entities so that they set up their impact structures and staffing with sufficient flexibility. Sometimes, founders have multiple entities operating together as a network and house their staff in the most flexible entity. This enables them to manage the other entities as "checkbooks" for the grants and investments.



2. **Staff roles and skill sets.**
   Founders who choose an integrated approach and use multiple impact tools often find it challenging to determine who to hire. Should they hire separate staff to implement grants and investments, recognizing that each requires distinct skill sets? Or should they have the same staff bring their skills to both grants and investments so that they can better implement an integrated impact strategy? There are pros and cons to each approach, and founders should carefully weigh the two options. Either way, we recommend that founders think about the skill sets required and craft roles to fit them rather than start with traditional job descriptions of specialized staff.

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[2] *Omidyar Network published a guide that can be a helpful reference to integrated founders: Building a Impact Investing Team https://www.omidyar.com/insights/building-impact-investing-team*

	Separate staff for grants & investments	Same staff handles both grants & investments
PROS	Allows for specialization of tasks.	Staff can own comprehensive strategy implementation, employing the right tool at the right time.
CONS	Requires strong collaboration to implement shared strategy.	Staff usually doesn't have expertise in one of the impact tools. Organizations often use investment experts that don't have grant or impact strategy experience

3. **Compensation.**
   Similarly, founders often wrestle with how to compensate staff. First, staff employed by tax-exempt entities have legal constraints on how much they are paid (as such pay must be benchmarked against other similar entities). However, staff employed by for-profit entities (LLCs) face no such limitations and, in fact, can also benefit from upside (equity comp, bonus, carry) associated with investments. Second, If both grantmaking staff and investment staff are working toward the same impact strategy but are compensated based on significantly different market rates, resentment can build between the teams. Even when the same staff is working on both grants and investments, founders aren't sure whether to benchmark their compensation against market rates for investment professionals, a hybrid of investing and grantmaking, or perhaps investing plus a bonus for impact achieved. Clear standards do not yet exist, but as increasing numbers of founders pursue the integrated approach, they will hopefully emerge.

Considerations:

- Given the impact tools the founder wants to implement, what kinds of skill sets are required for implementation?
- Given the founder's chosen strategic approach (separate or integrated), how should skill sets be combined into roles?
- What are the founder's expectations for compensating staff who are working to achieve their impact goals?

Decision Factor 8: Concern about conflicts of interest

Because the founders of private foundations are granted tax deductions, they are "disqualified persons" of the foundation and must avoid "self dealing" and conflicts of interest with the foundation's activities and their personal investments/activities[3]. Further, other "control" persons at the foundation are also considered "disqualified persons." In addition to the rules that prevent such persons receiving benefits from grants, investments or other transactions, activities of the foundation must be structured to benefit a charitable class and avoid both private inurement and private benefit. Expert legal and tax advisors can help founders structure their activities to avoid this legal risk.

However, even if there is no legal challenge, perceived conflicts of interest could damage public perceptions of their impact efforts and result in negative personal public attention.

In our research, some founders were not overly concerned with this issue as long as they were legally compliant. For example, they might ensure that there are "disinterested" directors for each of the affiliated entities that can negotiate and approve transactions where there is a conflict of interest.

Other founders, however, were highly sensitive to the potential for negative attention and designed their impact structures to proactively avoid any whiff of self-benefit. These founders may:

- make all related grants and investments out of a nonprofit entity (whether a single entity or several entities).
- focus their impact work on issues unrelated to their personal business and investments.
- initiate and manage grants and investments out of separate impact entities and focus on completely separate issues for each.

Considerations:

- How concerned is the founder about perceived conflicts of interest?
- Does this concern center around a certain issue area (perhaps because the founder's for-profit business interests are related to that issue) or is it in general?

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[3] *https://www.irs.gov/charities-nonprofits/private-foundations/acts-of-self-dealing-by-private-foundation*

Decision Factor 9: Anticipation of evolution

Over and over again, we heard from the organizations we studied that they wished they could go back and re-design their impact structures given what they know now. Though no one can see into the future, founders should think about how their preferences and situations might change and build their impact structures to allow for evolution.

To allow for such evolution, founders should strive to build flexibility into their impact structures. This includes flexibility of impact tool use. Though a founder may not use a type of impact tool now, they may decide to employ it later. So it's important to select impact entities that can deploy multiple tools.

Flexibility in location of capital is also desirable. Once a founder places capital into a nonprofit entity such as a foundation, it is extremely difficult and costly to move such capital into a for-profit entity later. Therefore, before committing a large sum to a foundation or DAF, the founder needs to be sure that they may not want to use a for-profit entity down the road for their impact work. To alleviate this issue, some organizations house their impact capital in a trust that periodically disperses funds to their multiple impact entities as demanded by strategic needs. That way, the founder knows their capital is not captive in an entity that can't use it as needed to implement their impact strategies.

Founders also need to anticipate that their own level of engagement with the impact structure will change over time, so they need to have a longer-term plan for leadership and staffing that doesn't rely heavily on them.

Finally, the founder's time horizon for spending down their impact capital is important to consider as they look into the future.

Considerations:

- What impact tools could the founder/team possibly use in the future?
- How does the founder and their family anticipate engaging with the impact organization in the short term? In the medium to longer term?
- Does the founder plan to spend down the impact-focused assets before their death or do they want the impact organization to continue?

Stepping back

After determining where they stand on all nine decision factors, founders should then determine the relative priority of each factor. Which decision factors matter most to them? Which are less important? Why?

A holistic understanding of all their preferences and priorities will be crucial for crafting the founder's optimal impact structure. Without this clear base, it's difficult to craft the right model. Therefore, founders should spend sufficient time on this step and fully explore the implications.

Step 3: Get everyone aligned

In our research, we learned of multiple instances when a founder's legal or investment advisors didn't fully understand or support the founder's integrated impact structure vision. Worse, some advisors actually acted as roadblocks by providing advice that was highly conservative, or by not cooperating with the founder's other advisors.

To avoid this challenge, it's key for founders to clearly communicate to their advisors and staff that they are committed to an integrated, holistic approach so that everyone understands the necessity to get on board and coordinate to provide holistic advice and support.

We recommend bringing together all key players that currently have or will have a role in the new impact structure (legal, investment, philanthropy, political and business as applicable). While together, the founder should talk through where they stand on each decision factor and how they prioritize the factors so that everyone involved is clear on the vision and can ask questions together. This step alone should help founders get more holistic advice that reflects their priorities and preferences.

Given the complexity of bringing everyone together and having a balanced conversation, we have found that this step can benefit from outside facilitation. Whatever you do, don't gloss over this step or you'll run into challenges down the road.

Step 4: Together, identify the optimal structure

With the clarity of founder priorities and preferences identified in Step 2, and the whole team on board after Step 3, the team can now turn to the work of designing the optimal impact structure.

A founder's team of advisors and staff can work together to identify the types of entities to use. Our research showed that founders are choosing from a wide range of entity types, including those shown on the following page.

Entity Types

PF

Private Foundation

An independent legal entity set up for solely charitable purposes (501(c)3). Funded by a single individual, family, or business.

LLC

Limited Liability Company

A private business structure that combines the pass-through taxation of partnership or sole proprietorship with the limited liability of a corporation.

DAF

Donor-Advised Fund

Giving account offered by and housed in a public charity. The donor can advise on the charitable distribution but does not have legal control of the funds.

VC

Venture Capital Fund

Investment fund that manages the money of investors who seek private equity stakes in startup and small- to medium-sized enterprises with strong growth potential.

SO

Supporting Organization

Type of public charity that carries out its exempt purpose by supporting other exempt organizations, usually other public charities. There are 3 types of Supporting Organizations.

OB

Operating Business/Organization*

Business or nonprofit organization that provides a product or service that furthers the founder's social impact mission.

T

Trust

Fiduciary arrangement that allows a third party, or trustee, to hold assets on behalf of a beneficiary or beneficiaries. There are multiple types of trusts.

CB

Personal Checkbook

No separate impact entity, just use of personal funds for direct giving.

C4

501(c)4

Nonprofit organization used to advocate for change via public education/awareness & influence policy. May engage in lobbying & political activity.

Can participate in politics and influence elections as long as it is less than 50% of their expenditures.

FO

Family Office*

A private investment firm that exclusively manages on or more families' wealth.

Family Offices can take multiple forms. Some founders studied have established family offices that are primarily investment funds & provide minimal other services. Others have more "full service" family offices that provide a range of legal, tax and other services in addition to managing grants and impact investments.

** Can take multiple forms (LLC, Partnership, S Corp, C Corp, etc.)*

Entity Type Capabilities

Ability to Utilize Impact Tools

	Grants to organizations	Grants to individuals	Below market rate investments	Market rate investments	Fund or conduct lobbying	Fund or engage in advocacy	Fund or engage in political activity
Private Foundation	YES	YES	YES (PRIs)	YES (MRIs)		YES	
Donor-Advised Fund (DAF)	YES		YES With select DAF providers	YES With select DAF providers			
Supporting Organization	YES		YES	YES			
Trust	YES	YES	YES	YES			
501(c)4	YES	YES	YES	YES	YES	YES	YES But not primary purpose
Limited Liability Company (LLC)	YES	YES	YES	YES	YES	YES	YES
Venture Capital Fund*	YES	YES	YES	YES			
Family Office*	YES	YES	YES	YES	YES	YES	YES
Operating Business	YES	YES	YES	YES	YES	YES	YES

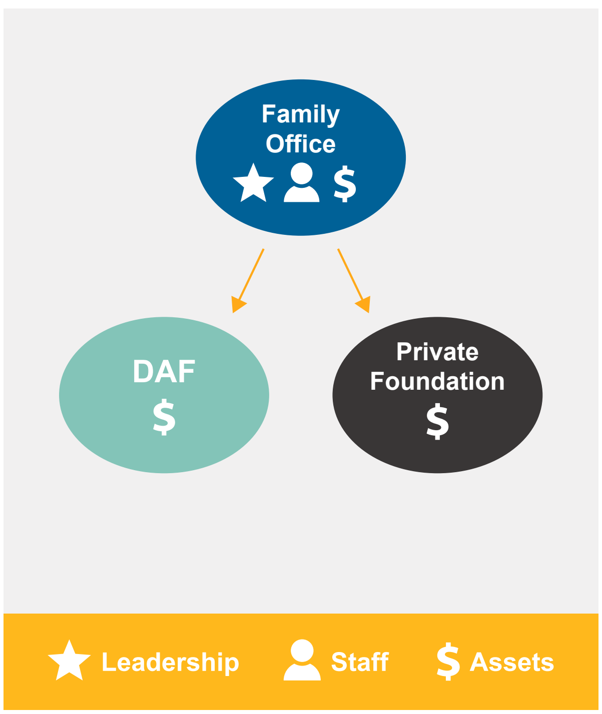
** Depends what legal structure is used*

Choosing the right entities is only part of the equation. Founders and their advisors/teams must also determine how to operate these entities to achieve the founder's goals. The team can start to piece the target entities together in different ways, identifying the pros and cons of different operating models and measuring them against the founder's priorities and preferences.

Example 1:

This founder prioritizes short-term tax savings due to a major liquidity event this year (unlikely to repeat) but has low appetite for entity building and wants to utilize separate approaches for their grantmaking and investments. They also want to modulate the public identity for their impact work, with a preference toward mostly keeping a low profile.

One option for such a founder would be to leverage their existing family office staff for investments and strategy and utilize a private foundation in concert with a donor-advised fund for grantmaking.



Pros:

- The founder does not need to invest in significant staff or organizational structure and can instead leverage their existing family office.
- They can obtain a tax deduction from donations to the donor-advised fund and the private foundation.
- The private foundation provides a higher level of control than a donor-advised fund and enables some public giving.
- They can make anonymous donations from the donor-advised fund as desired.

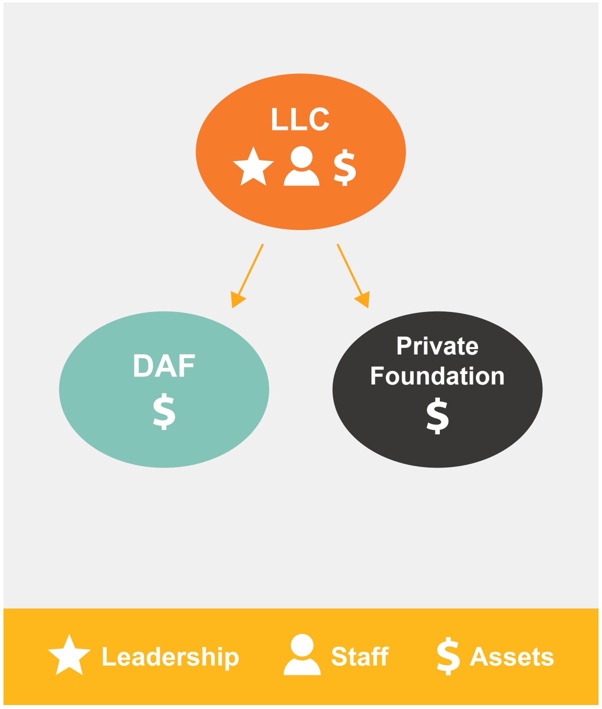
Cons:

- The private foundation is an independent 501(c)3 that must have a board and appropriate governance mechanisms in place.
- The foundation must also file annual disclosures to the IRS, which make donations and funders public and has significant restrictions on its operations.

Example 2:

This founder wants to utilize an integrated strategy approach for their grants, investments and advocacy, is willing to hire staff and build an organization for their impact work and prioritizes flexibility.

One option could be a "network" organizational structure with an LLC that houses the staff and a private foundation and donor-advised fund that serve as "checkbooks" for grants and investments. All three entities would be represented publicly under a common brand. Or, the founder could choose to operate the three entities as a network but only publicize the LLC and foundation in order to keep donations from the donor-advised fund private.



Pros:

- Housing the staff in the LLC allows them to flexibly work on both grants and investments from a central, strategic position.
- Utilizing all three entities maximizes flexibility in use of impact tools and control of public identity. All three entities can make grants. The foundation and donor-advised fund can do some investments and fund some advocacy while the LLC has broader flexibility with investments and political activity.
- A short-term tax deduction is available for donations to the donor-advised fund and the private foundation.
- The private foundation provides a higher level of control than a donor-advised fund and enables some public giving.
- They can make anonymous donations from the donor-advised fund as desired.

Cons:

- Utilizing an LLC for impact-focused work can sometimes lead to skepticism from the public. However, this model is becoming more common after trailblazers like Omidyar Network and Chan Zuckerberg Initiative.
- Staff must be careful about following conflict of interest rules and select the appropriate entity for related investments and grants.
- The private foundation is an independent 501(c)3 that must have a board and appropriate governance mechanisms in place.
- The foundation must also file annual disclosures to the IRS, which make donations and funders public and has significant restrictions on its operations.

Step 5: Implement

Once an impact structure is selected, implementation will look different for each founder because each is starting from a different place. Some are starting fresh, often due to a recent liquidity event. These founders and their teams have the luxury of implementing without worrying about adjusting existing entities. Alternatively, however, they don't have operations to build from in the short term. More often, founders have already been active in philanthropy and/or impact investing, so they have some entities and staff in place that they can leverage. At minimum, they often have a family office that is engaged in the work.

Implementation of a founder's optimal impact structure will require consideration of multiple areas over the coming months and even years. A few areas that will need attention include:

Operations

- establishing new entities (nonprofit or for-profit) and setting up their accounting, legal and operations functions as required for different types of entities;
- managing an opportunity pipeline and developing due-diligence processes that may be different or the same across different entities and instruments;
- establishing procedures to avoid conflicts of interest or self-dealing between entities, even if they are working on separate strategies.

Staffing

- defining the founder's role and that of other leaders in the organization;
- developing or revising job descriptions;
- breaking down cultural and practical silos between "grantmakers" and "investment staff" (for integrated strategies);
- developing equitable and reasonable compensation arrangements that reflect new job descriptions;
- implementing or updating a performance management system that reflects the goals and preferences of the founder as well as the staff needs for professional development.

Impact Strategy and Measurement

- developing themes or focused strategies for areas of interest;
- building out an impact measurement system that is larger than any single grant or investment;
- developing reporting capabilities to aggregate financial and impact information across entities.

Even the most sophisticated organizations take time to adjust to a new way of working, and new organizations take time to hit their stride. Implementation is likely to take several years and will involve evolutionary tweaks in years to come.

Getting Started

The increasing trend toward a holistic impact approach is very exciting and we've seen firsthand just how powerful this approach can be in solving today's complex issues. However, we recognize the challenges that founders face when trying to establish or evolve their integrated impact structures. We hope that the insights shared here can help move the conversation forward.

Based on the research and our experience, we have some suggestions for both founders and their advisors as they start to use the **Structuring for Impact** approach.

Suggestions for founders

Think about **who will drive this process forward.** Pulling together your advisors and staff and facilitating successful discussions will take time and focused effort.

- Are you ready to lead this process? If not lead it, are you ready to invest the time to understand the issues and make decisions to move it forward?
- Do you have an advisor or staff member who could take the lead on this?
- Or, should you secure the help of an outside consultant who can serve as a neutral guide and facilitator?

Set aside focused time to **carefully reflect** on each of the decision factors, consulting your advisors as appropriate. Investing effort now on these issues can **save you time, money and stress later.** Think carefully about your preferences for today and consider how they might change over time so that you can build for flexibility. If you're working with other family members on your impact efforts, use this as an opportunity to have a structured discussion about your joint goals and preferences.

Be sure to **clearly communicate your vision and commitment to your advisors and staff.** Getting all your advisors and staff on the same page (Step 3) is a crucial action that is often missed. Don't assume your lawyer is on board or that your investment advisors are ready for this approach. Make sure to clearly communicate your commitment and set your expectations for how your advisors and staff should work together to meet your needs. Ask them what concerns or questions they have upfront so that they don't turn into issues that passively or actively slow things down. Also, think about how to align incentives so that your advisors and staff are committed to working toward your impact goals.

Suggestions for advisors and staff of founders

High net worth clients, particularly those in younger generations, are increasingly demanding an integrated approach in all aspects of their lives. This is especially true in their impact work.

We believe that the advisors who offer more holistic counsel and services will **better serve these founders and ultimately be most successful.** To fully meet these innovative clients' needs, we encourage advisors to:

- understand the purpose of an integrated impact approach and be prepared to work with advisors in other disciplines to provide holistic advice to the founder;
- spend time to deeply understand the unique preferences and priorities of the founder across all decision factors so they can better tailor their work;
- have a working knowledge of key aspects of the founder's impact strategies so they can tailor their advice to maximize the founder's impact.

Thank You

We so appreciate the generosity of the founders and their staff who participated by sharing their experiences and perspectives for this research.

We hope these shared insights are useful to others and we look forward to seeing how other innovative founders design and implement their own unique impact structures.

Sources Used

- Interviews with key staff of each organization studied plus some of the founders; websites of organizations studied; key documents provided by organizations studied. We have not specified these organizations in order to preserve confidentiality.
- Interviews with and input from sector experts:
    - Paul Brest, Stanford Law School, Stanford Graduate School of Business, Stanford Center on Philanthropy and Civil Society, Stanford Law and Policy Lab, past president of William and Flora Hewlett Foundation
    - Don Carlson, Lansberg·Gersick & Associates
    - Temple Fennell, Clean Energy Venture Fund, Harvard Kennedy School
    - Will Fitzpatrick, Will Fitzpatrick PC
    - William Foster, The Bridgespan Group
    - Christina Leijonhufvud & Kim Wright-Violich, Tideline
    - Josh Mailman, Serious Change LP, Social Venture Network
    - Justin Rockefeller, Abigail Noble, & Ariella Rotenberg, The ImPact
    - Susan Mac Cormac, Partner, Morrison Foerster

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Key Terms

Founder

Person/family who uses their resources to achieve social or environmental change. Need not be the first-generation or person who technically established any existing entities, but rather the person(s) now driving the social impact work.

Holistic advice

Advice that incorporates perspectives from tax, wealth, investment, legal and philanthropic advisors, all of whom understand the founder's preferences and priorities. When combined, this advice delivers a balanced recommendation or plan of action.

Impact strategy

Plan for how to achieve the founder's goals for specific social or environmental change using grants, investments, advocacy/political activity and/or business operations.

Impact tools

Grants, investments (includes both market-rate and below-market-rate investments), advocacy or political activity and business operations that are proactively used to achieve a founder's impact goals.

Impact entities

Legal entities that house assets, staff and resources to implement grants, investments, advocacy/political activity and/or business operations. These include private foundations, donor-advised funds, limited liability companies, 501(c)4s, venture capital funds, family offices and numerous other structures.

Impact structure

Impact entities and organizational design that enable a founder to achieve targeted goals for social or environmental change. The impact structure includes the location of leadership, people, financial assets among the entities and the decision-making processes among them.

Structuring for impact

A new, holistic approach for identifying the optimal impact structure for an individual founder/family.

Theory of change

Description of how and why a desired change is expected to happen. Identifies the long-term goals and the conditions that must occur in order to cause the goals to be realized.

WPPG

WALTON PERSONAL PHILANTHROPY GROUP

Walton Personal Philanthropy Group (WPPG) provides services to the family of Sam and Helen Walton to support their individual philanthropic activities. These services for the family and their related entities include program and grant management, grant administration, impact entity infrastructure assistance, and strategic support services. WPPG is a part of Walton Enterprises, the family office of the Walton family.