

Bill Hurt's 2003 Letter to the WHH Foundation Board

The WHH Foundation's objective is to 'do good!' That is a subjective goal big enough to house Boulder Dam. I meant it that way to allow each of you Directors to define for her/his self how you wanted to participate to make the World a little better place. Here you can see the Puritan Ethic that I was brought up with and is in my naïve Los Angelino bones: someone brought up in the era when we truly believed the good guys win because we were not confronted daily with the contrary evidence that has abounded in almost all other parts of the World throughout history.

That said; let me narrow in on my own way of thinking about 'doing good'. My shtick is 'HUMAN CAPITAL.' This reflects my investment orientation and the influence of Gary Becker (recent Noble Laureate) who defined the term back in the Sixties. Since then I've used and tested his thesis over my career and I have found it a very useful way of thinking about how the World works. While you can't see and feel it, you can recognize its manifestations in every aspect of living. Folks rich in human capital are the movers and shakers in their activities whatever their calling and milieu. They tend to make things happen as they shape tomorrow's World. My orientation is toward the future. I enjoy reading history and I am mindful of the admonition that he who ignores history is doomed to repeat it. But at the same time I've been impressed over the years by the definition of history as 'the lies written by historians.' A book has just been written about Capital by an author who is bright and insightful, who understands our activity pretty well (that has been his professional activity for 40 years) and who has had just about total access to us. He got a lot right, but each of us who lived it sees a lot of it differently than he captured. (Somebody said, history looks different when you lived it.)

With that diversionary background, here's how I describe my approach to investing in human capital as it has evolved over the years, and how I see it at the moment. (The only thing I'm sure of is that it will morph again and again as I play out my Final Act.) Education is the lever that I think is the most effective at creating it. Good health is a necessary concomitant to being able to use it effectively over extended periods, and so activities that combine the two are doubly effective. This is the background for my focus on USC and Childrens Hospital. Sitting on the Board of CHLA for the last 18 years has led me to focus on it rather than USC where I have no regular direct contacts and where I haven't had the imagination to develop them. A large part of my focus on these two is a theme that pervades my other supports: They are both integral parts of the effective functioning of Los Angeles that is so much a part of me. When I went to USC, it was a football school that its critics derisively labeled the 'University of Spoiled Children.' It's changed a lot since then and under Steve Samples' leadership (the product of his capital) has become increasingly first rate. Hence, my interest in enhancing its capability to build human capital on a broad, extensive and far-reaching scale. (It is also educating a very large number of non-Americans that are already influencing events around the World and promise to have even more clout in the years ahead.) The support of these two is complimentary, and that is another theme of my philanthropic investment. I keep looking for ways to create that dreaded word, synergy - 2 plus 2 equals 5. CHLA is a part of USC. Their medical students do their pediatric internship there, and those who go on to specialize in pediatrics also do their residency there as well as fellowships. About 125 per year all told. I don't have the exact number - but the percent is very big - of pediatricians who will care for Southern California's many billions of children in the generations ahead will be trained at CHLA.

Which brings me to CHLA. Here is another investment in human capital, this time in the form of remedying the health of a child who has most of her living in front of her. Fixing infirmities that would otherwise dog persons for a lifetime and diminish their capability to care for themselves and to contribute to others is an enormous 'return on investment' to put it crassly. Gary Becker conceived this way of thinking that I find so useful in thinking about where I want my philanthropy 'invested.' Within CHLA my focus has been on the education function of its mission because of the leverage that I referred to above. I also emphasize it because it is the least visible activity of the hospital and hardest to get excited about when we are seeking support from the community. A new surgery center is easy to comprehend and its product is very visible; and the dreams of the output of the research function are a grabber. Education is on the bottom rung of the ladder when it comes to fundraising support. Note also that old folks, as a group, have the financial resources and time to take care of and lobby for themselves, and they do it very effectively.

Children have none of these. They need others to advocate for them, and that further stokes my interest in CHLA.

At the other end of the spectrum is the Union Station that I support because its focus is on salvaging and rebuilding the human capital of broken individuals and families. And it is an effective part of my community, led and delivered by caring folks who have a realistic approach. It is organizations like this that complement 'government' agencies that all too frequently get mired in ineffective, even counter-productive, bureaucracy, well-meaning as they can be. Moreover they can set examples that earn emulation and thereby provide some leverage on how our societies work. However, I pit it well below USC and CHLA because it has lesser leverage in building the society over the long term. I'm also careful about how much support I offer them - and groups like them - because I worry that organizations that are very effective on one scale can lose effectiveness on a larger scale. It all depends on their people's capacity to grow. Here I'm mindful of Jon Lovelace's approach of doing a little bit of something, seeing how it works, doing a little more if it's working, and continuing on the course until it feels like 'that's enough!' That approach is not crisp or neat, but I've found it works.

Related to this is the commitment of so many effective Capital folks to Union Station, as well as a woman that I've come to know who chairs it. As I reflect back on my philanthropy and its evolution, I've become increasingly conscious of the usefulness of knowing and calibrating people who are participating. Our approach at the WHH Foundation of having all the 13 adult members of our families as its Directors gives us that. Our allocation for potential grants and the key proviso that we be personally involved in the project - and not just buying a table at a glamorous fundraiser - educates us to that. I think we have all grown from those experiences, at least I know I have. And I think it has made me more effective. One of our challenges will be to bring into our effort the next generation of those who are genuinely interested, not just those who reluctantly join in because it's expected of them.

The fact that so many Capital people are earnest and effective devotees has recently led me to focus increasingly on the support of their causes because I have confidence that the monies and their missions, and their performances will be well thought out and executed. Avoiding wasteful efforts can be as productive of, usually starved, philanthropic resources as raising fresh funds.

I referred to the mutual benefits of supporting USC and CHLA working together. This leads me to another element of my philanthropic strategy: trying to promote collaboration among institutions that would have synergistic outputs. Institutions each have their own cultures and are subject to the costs and inertias of NIH (Not Invented Here). Helping them overcome NIH's social inertias can amplify their effectiveness. This has led me to offering a Joint Visiting Professorship of the History and Philosophy of Science to CalTech and the Huntington Library. One is a premier institution of science and the other the repository of a treasure trove of historic science documents. And they reside about three blocks from each other, but the institutional; inertias of NIH and the personalities that emanate from turf protection have not promoted the degree of collaboration that would be so mutually beneficial. Because I live next door to one and three blocks from the other, my strategy has been to try to enhance the effectiveness of each by providing the carrot for collaboration in the form of his joint professorship proposal. (The stick of lecturing them about the potential benefits is not effective; in fact it is almost certainly counterproductive). I've been at it for several years now, and have begun to see signs that it may, in fact, occur. But I'll believe it when I see it.

Why the History and Philosophy of Science? Hopefully, another point of leverage: CalTech has a collection of some of the brightest scientists and students on our planet. They are helping change the World, mostly for the better, by dint of their discoveries and the future outputs of the scientists and engineers they are training. But in other ways their faculty and students can be surprisingly (at least to me) narrow or biased in their views of how the World works and where they and their students and their discoveries fit in. And this combination makes them less effective than they might be. To be exposed to how Copernicus and Galileo approached science in an innovative way that carried with it all the inertias of institutional bias and prejudice has many parallels to the World they will be operating in during their careers. In my view having exposure to those historic events can magnify their effectiveness in making the World a better place. I know how useful the Business History course I took at HBS was for me during my career.

Sally's and my propinquity to both CalTech and Huntington has another fallout. It follows on one of Jon Lovelace's imprimaturs: life is too short: try to spend time with people you primarily enjoy. Interacting with the bright insightful folks at Huntington and CalTech is both stimulating and fun. While it is part of every good development officer's design to create those situations for potential donors, what evolves out of them is within your governance, not theirs. And they can be mutually rewarding in ways neither of you might anticipate.

Another aspect of the direction of my philanthropy has been to try to magnify it by the device of structuring the grants to be matched where possible. This may take more than a little imagination, but if you keep at it, I suspect you will be surprised at how effective it can be to be the, or a, lead donor. It's important in matching to only ask for matching that fits the capabilities of a dedicated donor that you might approach. To ask for more can be both an embarrassment and a turn off for them. As such it can be quite counterproductive. Depending on the individual capabilities, you can adjust the matching ratio: 1 to 1; 1 to 5; 1 to 10; or whatever.

I've also learned to think through the who, what, why, how's of the grant. What is its purpose? Who is responsible for its outcome? How will the grantee measure its effectiveness? How will we measure the effectiveness of our monies? They may not be the same. And establishing measures can be a very revealing and useful process. How will they report to us, and when? Get it all in writing and in periodic reviews. Theirs and our memories have a way of differing with time and events, even though we both have the best of motives. These kinds of misunderstandings have a way of polluting the best of relationships. And periodic follow-ups should be established at the beginning so that requests for updates don't come across as harassments. People quite naturally resist the seemingly unnecessary pain of thinking through a project in sufficient detail to commit it to writing, and then in thinking through the results that all too frequently expose flaws in the logics or execution of the programs. The process is healthy for them and us, and it can be surprising how differing our perceptions turn out to be when we see them in writing. All of this is important in all grants, especially the larger ones. While it may seem unrealistic for the smaller ones, don't just assume so until you've given it some hard thought.

Also set aside some time to think through who else might be interested or want to get involved. I've referred to it above, but it deserves reiteration because it can be powerfully magnifying.

You will note that none of the above addresses grants to endow projects or to fund the building of facilities. Both are quite capital intensive and our resources don't allow for doing anything significant, and they foreclose all kinds of proactive smaller projects that we can do quite well, frequently or usually better than many others.

Enough of these generalizations. Here is a checklist of the criteria that I've come up with that encompasses the above and some more for targeting grants:

- Are we proactively building human capital, or at least salvaging it?
- Are we promoting or facilitating more productive activities?
- Are we promoting synergistic collaboration?
- Have we structured our support to multiply our contributions?
- Is there a measure of 'venture' philanthropy in our effort, one that might surprise in its effectiveness and create models for emulation?
- Is it magnifying the overall effectiveness of the WHH Foundation?
- Will our grant have a meaningful impact on the project?
- Are the results of project measurable, or can we devise measurements?
- Will our individual participation promote fulfilling interpersonal relationships?
- Is the project done better privately than publicly?

When it comes to determining the amounts:

- How much can have meaningful impact, on, or even fulfill, the grantee's mission?
- The range should vary with the size of the effort and the probable outcome.
- Should it be done in lump sum, or spread out over the project?
- Is it done in the most tax-efficient way: timing, dollars or in kind, pledge an income stream, or disposition of a CRT, or ??
- Watch out for exceeding IRS limits on category of grant. (Their inquiry, not ours)
- Is the amount within WHH Foundation's 1,3, or 5 year capabilities?
- Vary the amounts and timing so that we don't get taken for granted and/or the grantee loses its 'edge'.
- Allow for nominal amounts when the grant is essentially a courtesy support.

What should be the terms:

- Require periodic meaningful program reports
- Discourage unrealistic funding expectations from the WHH Foundation
- Maintain a healthy tension in the long-term relationship; i.e., don't get taken for granted.
- Facilitate easy follow-up progress reporting to our Board.

Earlier I devised this QUESTIONS FOR POTENTIAL GRANTEES for each of us to ask when negotiating a grant that encompasses some of the above:

- Is this to build or salvage HUMAN CAPITAL?
- How do you (grantee) collaborate with organizations or people of common interests?
 - Government agencies
 - Local charities?
 - Churches
 - Other
- How can the above (or we) magnify the fund raising?
 - Matching gift programs
 - In kind donations: PCs, printers, cell phones, TVs et al
- How can we help magnify the efforts?
 - Part time involvement
 - What tasks might we find people for?
 - Please submit a written plan/proposal
 - Please present an annual report of progress, or more frequent if called for.
- Who else within WHH Foundation might have an interest?

Well, that's it! More than you asked for, but I found it a useful exercise to think through my own philanthropy during my Final Act. All of this is a work in progress so I reserve the right to change my mind on any or all of this. I'd love your reactions. Perhaps we could discuss it at the February Board meeting.

--Bill Hurt, 2003 Letter to the WHH Foundation Board