



## Strategic Philanthropy – The Chan Zuckerberg Initiative



In December 2015, Facebook founder Mark Zuckerberg and his wife Dr Priscilla Chan announced their intention to pledge 99% of their Facebook shares – then valued at A\$62 billion - to a new philanthropic vehicle known as The Chan Zuckerberg Initiative.

Koda believes the Initiative is a game changer with the potential to completely revise the way we think about philanthropy, charity and how to create social impact, thanks to its big picture approach and refusal to be bound by conventional wisdom.

In this article, first published in the 2016 Leadership issue of Generosity Magazine under the title '*Why the Chan Zuckerberg Initiative is a sign of the philanthropic times*', we explain why.

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# *The Chan Zuckerberg Initiative*

Facebook founder Mark Zuckerberg and his wife, Dr Priscilla Chan, recently announced their intention to fund the Chan Zuckerberg Initiative ('the Initiative'), a company established as a vehicle for their philanthropic activities.

This announcement polarised the media. The Chan Zuckerbergs have either been praised for the scale of their generosity or pilloried for dressing up private investment as charitable giving.

Both responses miss the point. The Initiative is a game changer with the potential to completely revise the way we think about philanthropy.

If you want to understand why, look to Maxima, the Chan Zuckerberg's daughter, whose birth in December prompted the couple's announcement. Maxima is a Latin term referring to *the highest level attainable* and to *the upper limit allowed by law or regulation*. It's almost like they wanted to signpost their ambition and intent.

The Initiative's mission is to advance human potential and promote equality. So far, so noble. So why are the cynics up in arms? Well, the Initiative represents an unorthodox approach to philanthropy. The Chan Zuckerberg's commitment does not involve a traditional donation and it won't be irrevocable, so they can spend it as they like. This leaves them wide open to criticism.

Here's what the cynics are saying and why they are off target:

## **Criticism #1: The Chan Zuckerbergs have no philanthropic intent**

This claim stems from the fact the Chan Zuckerbergs have not donated their shares to charity or to a charitable foundation. But does this matter? As Felix Salmon wrote recently, "Just because you're tax exempt doesn't make you charitable, and just because you're not tax exempt doesn't mean you're not philanthropic." The Chan Zuckerbergs have a strong record of donating money and there's no evidence to suggest they are anything but sincere in their intentions. In fact, there is plenty of evidence to suggest they intend to honour their commitment.

## **Criticism #2: It gives them too much power**

Wealth inequality is becoming more pronounced, creating societies with small, powerful elites and big subordinate populations. The media is focused on whether unelected individuals should decide how billions of dollars are spent in the community.

This is a fair question, but it is a bit late to be asking it. Fretting over how people distribute money is the ambulance at the bottom of the cliff. If we don't want individuals to be able to distribute massive fortunes, then we should be thinking about how they accumulate them in the first place—the fence at the top of the cliff.

### **Criticism #3: It's a vehicle for political lobbying**

Maybe. But, we should not be unduly concerned about the possibility the Initiative will pursue its mission through political advocacy. Is it even a surprise, given the Chan Zuckerbergs live in a country where lobbying is a fundamental part of the sociopolitical process? Advocacy is a lever to get things done and it's naive to believe otherwise.

### **Criticism #4: It's a tax dodge**

The Initiative will pay tax on its income and realised capital gains and will get tax breaks similar to those you and I would qualify for if it donates money to a charity. Moreover, the Initiative will get no tax concession for political donations or for funding for-profits.

It's not just interesting, but important to note that by establishing a regular company rather than a charitable foundation, the Chan Zuckerbergs have chosen flexibility and control over available tax deductions. In their own words: "What's most important to us is the flexibility to give to the organisations that will do the best work—regardless of how they're structured."

**This brings us to what's so interesting about the Chan Zuckerberg Initiative, which is its potential to change the way we think about philanthropy, charity and solving social issues.**

In taking an unorthodox approach, the Chan Zuckerbergs are set to challenge conventional thinking on a grand scale. The Initiative is a lightning rod for ideas and contentious issues, like:

### **Whom to give to**

We are already witnessing a shift in how we think about creating social impact. The Chan Zuckerbergs have just taken it to a new level.

There is a growing argument that charities do important and valuable work, but do not solve entrenched societal problems. A recent op-ed in the US, conceded: "[There's no evidence that philanthropy has influenced the course of poverty, inequality, violence, or environmental degradation in the last century or so](#)".

Have these thoughts occurred to the Chan Zuckerbergs? Their approach—a combination of activities and investments in for-profit entities, charitable organisations and social enterprises—suggests so.

Do we embrace this new vision of effecting social change, even if it is subject to abuse? If so, we need to embrace complexity, contradiction and imperfection. It's a big ask that requires us to change our definition of philanthropy and charitable work to incorporate impact investing, social enterprise, shared value and investment in for-profit businesses that have the potential to improve society.

## **How to give**

The Chan Zuckerbergs have already shown us that philanthropy requires experience, engagement and commitment.

From their early work in Newark to their subsequent philanthropic endeavours, they are on a learning journey like all committed philanthropists. Specifically, their story serves to underline for us the importance of engaging directly with communities and making multiyear commitments. Again, in their own words: “We must engage directly with the people we serve” and “If we want to be good at (philanthropy) in 10-15 years, we should start now.”

The scale of the Initiative is also a good example of the growing trend towards Giving While Living, which the Chan Zuckerbergs are doing while simultaneously pursuing their professional careers.

## **The need for tax concessions**

Contrary to popular belief, no one gives money away just to claim a tax deduction—it costs you more than you save, so you have to have another motive, usually a desire to help others.

In Australia, as in the US, we democratically allow people to access tax deductions in order to encourage them to give more.

The Chan Zuckerbergs can access a range of tax concessions, but so far they have ‘traded’ most of them for greater control and flexibility. Their bet is that they can achieve more with less. This choice should interest Australian philanthropists brought up on the belief that tax deductible giving to charity is the only kind there is.

## **The value of risk**

If the Chan Zuckerbergs do adopt a venture philanthropy style approach, they will be embracing what many believe philanthropy should be about: experimenting, innovating and seeking breakthroughs while accepting the risk of failure.

We do not know what impact the Chan Zuckerberg Initiative will have. But we should all encourage them, all watch them and all hope they succeed in their mission. Because if they do, they will have truly improved the world for current and future generations.

<sup>^</sup> This piece originally appeared in [Generosity Magazine](#) on 4 February, 2016. Generosity Magazine is dedicated to nurturing, promoting and inspiring a greater culture of giving in Australia.

# *About the Author*



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David heads Koda's specialist Philanthropic & Social Capital team. His primary responsibility is providing strategic advice to charitable, non-profit, and philanthropic investors. In a 25-year private wealth management career David worked for Coutts and Merrill Lynch in the UK and held senior advisory and leadership positions at Perpetual, where he was head of philanthropy, and JBWere, where he was head of philanthropic services. David is a member of the Centre for Social Impact's advisory council, Impact Investing Australia's market building working group, and a Director of the charity BoardConnect. David also sits on the editorial advisory board of Generosity magazine. In 2012 David established a Public Ancillary Fund account to encourage philanthropy within his own family. In 2013 David attended Harvard Business School, where he completed the Governing for Non-Profit Excellence executive education course.

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