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PERFORMANCE PHILANTHROPY

Giving for Results

Philip Berber loves picking fights with the status quo.

A Jewish Irishman who now lives in Texas, Berber has spent most of his 45-year life dreaming up technology companies that disrupt the establishment. In the mid-1990s, he created CyBerCorp, an online trading system that allowed individual investors to buy and sell stocks directly from their home computers. The premise was revolutionary—to bypass brokers like Merrill Lynch and usher in a new era of do-it-yourself (and lose-it-yourself) investing. When the Internet took off, so did CyBerCorp, allowing Berber to sell the business to Charles Schwab Corp. in 2000 for more than $450 million.

"For a Jewish kid from Dublin, that was more money than I ever imagined," he says, in his Southern-fried brogue.

Now, from a makeshift office in suburban Austin, Berber is launching a new venture that could be even more revolutionary.

Dressed in his dot-commer uniform of khakis and polo shirt, Berber dashes around his conference room outlining his business plan. His new company, he explains, is akin to a venture-capital fund, investing in start-ups and entrepreneurs. Like CyBerCorp, it bypasses an entire industry of financial middlemen to deliver services more efficiently. He talks about his returns on investment, his quantitative analyses and rigorous project management. He fills a notepad with dozens of flowcharts, X-Y graphs and maps of his market area. He goes on a tirade about his competitors, who he says are "wasteful" and "arrogant."

"What I'm doing is very akin to the Dell (computer) model," he says. "It's a direct delivery of a product."

The only difference is that Berber's business doesn't make a product. It doesn't have a sales department, or advertising, or growth targets, and it doesn't make any money. His company, in fact, is in the business of *giving away* money. It's called A Glimmer of Hope, and it's Berber's personal charity. So far he's given Glimmer $100 million, or about half his total fortune. And in the process, he's helping to create a new kind of entrepreneurial charity.

Berber insists he's not "giving away" his money. He hates black-tie balls and the social climbing that poses as charity in places like Palm Beach. He shuns awards and would never think of writing a check to a big institution like the Red Cross, which he says wastes donor money on staff, marketing and useless reports.

Instead, Berber calls himself a "social entrepreneur." An impatient man, with a cleanly shaved head, a runner's physique and a lightning-fast mind, Berber has decided to run his charity more like a tech start-up. He's not in the business of donating money; he's in the business of investing in social change, demanding concrete results and searching for dot-com-style efficiencies.

"I'm not giving anything to anybody," he says. "There is no charity with me. I'm a social investor investing capital for social profits."

Berber's plan to save the world through return-on-asset models would be ambitious by any standard. Yet he's taken his experiment one step further. He's decided to apply his social-investor theories to one of the most complex and intractable social problems in the world—poverty in Ethiopia.

So far, Berber is posting impressive results.

Since 2001 Glimmer has spent more than $16 million in Ethiopia. It's built 1,657 water wells, bringing clean water to more than 886,000 people. It's built 190 schools, educating more than 112,000 students. It's created 99 health clinics, serving 766,000 people, and launched 24 vet clinics for farm animals, benefiting 162,000 people.

He's even prouder of his efficiency. Berber's projects in Ethiopia, he says, sometimes cost half as much as similar projects run by the big aid groups. He can deliver water, for instance, for $5.74 per person, or health care for $4.01 per person.

"This isn't rocket science," says Berber, who has actually worked in rocket science. "There is no magic to what we're doing. This is applying fundamental lessons I learned as a business entrepreneur and reapplying it as a

social entrepreneur. This is a blueprint and it is wholly applicable to whatever philanthropic cause touches anybody's heart. I only wish more people would try it."

He's already winning converts. Computer billionaire and fellow Texan Michael Dell has donated $500,000 to Glimmer, and Silicon Labs founder Dave Welland has also donated several hundred thousand, even though Berber isn't seeking outside money. In the summer of 2006, Sir Richard Branson summoned Berber to his private island in the Caribbean to seek his advice (along with other global political leaders and business chiefs) on addressing social and environmental issues around the world.

"We wanted to have him there to tap into his unique experience in using business principles to approach social issues in order to drive sustainable results," said a Branson spokeswoman.

Berber has also made Ethiopia something of a family crusade. Every summer, instead of heading to the beach, he packs up his wife and three kids and flies to the Ethiopian outback for several weeks to learn more about the lives and needs of the locals. During a trip in the summer of 2006, the Berbers were greeted like kings in the Ethiopian villages, with thousands of locals surrounding their jeep and holding up signs that read "Thank You Berber!"

Yet while Berber may be getting accolades from Ethiopians and fellow philanthropists, he's proving less popular with the big nonprofits. In fact, he's become their worst nightmare. Through Glimmer, Berber is showing that the wealthy don't need to give money to the United Way, Red Cross, CARE and the rest of the charity establishment. Just as CyBerCorp bypassed the big brokers, Glimmer is proving that today's Richistanis don't need big nonprofits to carry out their good works. The big NGOs, Berber says, are headed toward extinction unless they change their wasteful ways.

"Most NGOs, if they were private companies, would be in bankruptcy," Berber says. "In our lifetime, we're going to see the winds of change and we're going to see donors become more educated about directing their dollars. If anyone knew that some of these charities only spend 19 cents of every dollar on the people they claim to be helping, they would be shocked."

For their part, the charities say Berber is a misguided neophyte who should just stick to software.

"I have no idea how he could arrive at the conclusion that he would better understand the problems of Ethiopia than our organization," says Adam Hicks, a spokesman for CARE. "You have to understand the world context in which Ethiopia exists, to understand deeply the food issues and exporting world. We have people who make it their life study to understand these issues. You can't just go into Ethiopia and say, 'I know everything there is to know about Ethiopia.'" He adds, "CARE staffers are highly trained in what they do. They are agronomists and doctors and engineers. They are more than well-intentioned do-gooders."

Charities like CARE, however, had better get used to people like Phil Berber.

Competitive Altruism

Philip Berber is part of a new generation of philanthropists. Along with giving away record amounts of cash,

today's Richistanis are radically changing the way the rich give back to society.

Total charitable giving in the United States has jumped to more than $260 billion—double the level of 1995. Americans with incomes of more than $1 million donated more than $30 billion to charities in 2003, up from $9 billion in 1995, in keeping with their population growth.

Philanthropy has never been more fashionable, with daily announcements about this or that software magnate giving $100 million to his alma mater, or another buyout king giving $20 million for a new museum wing. Honorary plaques now cover countless schools, museums, concert halls and even park benches.

The business press, once leery of rich people bearing gifts, now covers philanthropy like a competitive industry. *BusinessWeek* publishes an annual ranking of the 50 top givers—a kind of Forbes 400 for competitive altruists. *The Wall Street Journal* runs a "Gift of the Week" column, detailing the donations of newly rich hedge funders, deal makers, tech founders and corporate chiefs.

The number of grant-making foundations in the United States has more than doubled since 1990, to more than 67,000. These foundations—used mainly by the wealthy to more personally direct their charitable giving—have assets of more than $500 billion.

Granted, many Richistanis view charity as a cheap way to burnish their image. Others simply want to buy their way into society, and some give because they're discovering that they can't possibly spend their fortunes in their lifetime and don't want to leave a legacy of spoiled children.

Whatever their motives, Richistanis are pouring huge amounts into philanthropy. Bill Gates's $31 billion foundation is the largest in history—more than five times larger (in 2005 dollars) than the amount given away by the country's previous philanthropic giant, John D. Rockefeller. The Gates Foundation recently got even bigger with Warren Buffet's $31 billion gift in 2006.

Eli Broad, the SunAmerica founder, has given away more than $1.4 billion for public education, arts and science. Michael Dell has pledged more than $1 billion for children's health care, and banker Herbert M. Sandler and his wife, Marion, announced plans to give away almost all of the $2 billion they received from the sale of their California savings and loan in 2006.

Beyond the size of their giving, Richistanis are also changing the way they give. They're no longer content just to hand a check to charity and assume it will be spent wisely. Like Berber they want a say in where their money goes, and they want results. Soup lines and handouts are passé. The new buzzwords are "social profits" and "high-engagement giving."

The shift is due partly to the ineffectiveness of big charities. In 2003, former senator Bill Bradley and consulting firm McKinsey & Co. released a study showing that U.S. charities waste more than $100 billion on fund-raising costs and administrative expenses. Other recent studies have found that big foundations have become autocratic, isolated and more focused on self-preservation and fancy offices than on solving global problems.

"There's a greater realization of the inefficiencies of the old organizations," says Ron Perelman, the billionaire financier. "We now have the ability to measure their efficiency and effectiveness and decide where to give."

As a result, Richistanis don't want to create big foundations that last forever. They want to give their money away now, while they can enjoy the praise and control the process. In a 2005 survey of people worth more than $30 million, by Boston College's Center on Wealth and Philanthropy, 65 percent said they planned to donate more of their wealth during their lifetimes than in their estates.

"People realize you can't take it with you," says Sandy Weill, former Citigroup Inc. chief executive and chairman, who has given away $600 million in the past 10 to 15 years. "It's a lot better to do a lot of this philanthropy while you're still alive and you have the energy. We can use our brainpower to make the world a better place now—not to leave a bunch of money that will be around in 100 years. Being the biggest foundation doesn't interest us at all."

The changes are also being driven by the way in which most Richistanis made their fortunes. As we saw in the Third Wave chapter, many of today's biggest fortunes come from the booming financial and technology markets. Richistanis are entrepreneurs, distrustful of institutions and confident of their own abilities to remake markets. They figure that they should be able to give away their money the same way they made it.

Bill Drayton, the management consultant and policy expert who coined the term "social entrepreneur," says that social entrepreneurs play by a different set of rules than the rest of the charity world. They are more like economic revolutionaries than genteel benefactors.

"The job of a social entrepreneur is to recognize when a part of society is stuck and to provide new ways to get it unstuck. He or she finds what is not working and solves the problem by changing the system, spreading the solution and persuading entire societies to take new leaps. Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry."

The top social entrepreneurs include people like Gordon Moore, the Intel cofounder who has pledged more than $7 billion to search for pioneering nature conservation and education projects around the world. Jeff Skoll, a former eBay exec, seeks out entrepreneurial nonprofit leaders and gives them added funding.

Ron Perelman decided to donate millions to an ambitious cancer doctor in California rather than giving to the American Cancer Society or other big foundation. With help from Perelman, the doctor, Dennis Slaman, helped develop Herceptin, which is now widely used in the treatment of breast cancer.

"Sure, there was a risk it wouldn't work out," Perelman said. "But it's like any business or transaction. If the guy has a history of performance and you have confidence in him, you fund it."

The New York-based Robin Hood Foundation, made up mostly of hedge funders, raised $48 million at its annual dinner in 2006 to fight poverty in New York City and holds regular "investor updates" for its givers. It also creates a "portfolio" of groups and causes to fund, based on their risk and missions. Its board of directors funds all the administrative costs, so they can promise that 100 percent of donations go to the people who need it.

Of course, the rise in so-called self-directed giving has also produced its share of follies. Drug-company heiress

Ruth Lilly, for instance, donated $100 million in stock to the Chicago-based Poetry Foundation in 2003. The gift left a small group of reclusive poets to fight over the millions and struggle with new phrases like "portfolio diversification" and "prudent man" theory.

And some venture philanthropists have taken "social profits" to an extreme. Pierre Omidyar, founder of eBay, has folded his charitable Omidyar Foundation into the Omidyar Network, which makes for-profit investments. Omidyar in 2006 gave $100 million in eBay stock to Tufts University for a microfinance program that will lend money to banks, institutional equity funds and other institutions to lend to the poor in developing countries. Tufts is seeking a return on its program of 9 percent or better. The $1 billion foundation set up by Google founders Sergey Brin and Larry Page promises to fight poverty, disease and global warming, while also making profits by funding start-up companies and forming partnerships with venture capitalists.

"After a few years trying to be a traditional philanthropist, I asked myself, if you are doing good, trying to make the world a better place, why limit yourself to non-profit?" Omidyar told *The Economist*.

Charity is also becoming increasingly competitive. Today's rich don't just want to do well by doing good: They want to be the *best* at doing good. Oracle's Larry Ellison, who's pledged to give away more than $600 million, ranks his fellow philanthropists not by how much they've given, but what kind of results that can show.

"Until you start solving problems, until you start curing diseases, until you start delivering results, what difference does it make how much you give?" Ellison said.

Mario Marino, a former software magnate who's become one of the leaders of the venture philanthropy movement, says he's worried that some of today's venture philanthropists may have gone too far. Rich donors, for instance, are increasingly showing up at inner-city community centers and trying to run them like their companies—ignoring the sensitivities and expertise of the staff.

"The typical person from business comes in and thinks he's smarter than these people and thinks he's the savior," Marino says. "And the nonprofit people just think the guy's a greedy, adversarial SOB who would take blood from a turnip. There's still a big gap between the donors and the nonprofits."

Marino says Richistanis, especially those who made their money overnight, tend to overestimate their ability to fix increasingly complex social problems.

"What happens when money comes quickly is that people don't realize that they're not as bright as their money suggests. Too many times people come in with huge egos and try to change the world. I made the mistake myself the first few years, and now I've learned that arrogance is a curse in this field."

Still, control-freak philanthropy is here to stay. And many of its most avid proponents, like Philip Berber, are already using it to address some of society's biggest problems.

Rebel with a Cause

On a Thursday afternoon, Berber is sitting at his conference table swigging a Starbucks. He's annoyed. Even when he's happy, Berber's right eyebrow arches up slightly higher

than his left, giving him a look of perpetual surprise. When he gets emotional, the brow arches even higher, becoming a kind of outrage meter. At the moment, he's outraged at the way most of the New Rich go about their philanthropy. And the brow is at full staff.

"When people come into wealth, they're being tested," he says. "Part of having wealth is to be a custodian and guardian for the well-being of our families and those that are our brothers and sisters outside of our countries."

The American rich, he says, have traditionally failed the test. When they give to charity, they're usually doing it to climb the social ladder, win friends, or advance their business interests. Black-tie balls are pure display, he says, and have nothing to do with solving the world's problems.

"I call it dancing for the dollar or feel-good philanthropy. Someone writes a check for their alma mater, after they've been courted and stroked, and they feel good afterward. It's social-ego philanthropy, where you get local praise. You want to be seen donating. There's nothing humble about it; they want to be visible and they want their name on everything. Social-ego philanthropy and feel-good philanthropy are all about responding to requests. That's not what I'm about."

Berber's philanthropic journey began long before he was rich. Born in Dublin to a Jewish clothing maker, Berber grew up with a strong sense of being the outsider and cultural minority. He played on a Jewish soccer team, which would get frequent ribbing from the Catholic opponents.

"It was amusing really," Berber laughs. "Here were these 11 circumcised Jews playing football against all the Catholics, so you'd get the occasional comment."

When he was a teenager, Berber started realizing that he was different in other ways. Aside from being a math whiz, engineering genius and abstract thinker, he noticed that he processed information much more quickly than his friends. He could look at a printed page and absorb the important facts within seconds. Berber wasn't just a speed-reader; he was a human laser scanner.

"I don't think I've ever finished a book," he says. "I wouldn't need to. I can pick up the important facts just by looking at a page." Berber also rarely watches a movie straight through, since he loses patience.

After college, he worked for a defense contractor (hence, the rocket science), then held a string of corporate jobs in London with Ford, Avon and Bausch & Lomb. Eventually, he struck out on his own and launched companies built on artificial intelligence and financial models. Most of them flopped. Yet one company took off and merged with a Texas company. In 1990, Berber and his wife, who's British, moved to Houston.

"It's safe to say I was the only Irish Jew in Houston," he says.

After a few years, Berber got tired of all the corporate politics and quit. He moved his family to Austin because "at least it was green."

In 1995, he visited one of the first day-trading offices in Houston and realized the business had huge potential. The Internet was just coming of age, and he realized that stock traders could use the Web to trade stocks on their own and break free from the pricey Wall Street brokers.

He stayed up for 24 hours writing a business plan. Within a few months, he launched CyBerCorp.

As day trading exploded, so did CyBerCorp. Berber worked 16-hour days writing trading models and growing the company. From his cramped office in suburban Austin, Berber was mounting a stealthy attack on Merrill Lynch, Smith Barney and the big New York stock exchanges.

"We were taking on Wall Street, we were taking on Nasdaq and shaking the establishment," Berber says. "There was a real rebel spirit in what we were doing. We were getting rid of the expensive, entrenched middlemen and leveling the playing field."

At its peak in 1999 the company had more than $20 million in revenues and more than 150 employees. Berber was involved in almost every aspect of the business, from hiring and marketing to software and lawsuits. "It was all-consuming," he said. "Even when I was home, my wife said I wasn't really home."

In February of 2000, Charles Schwab Corp. offered to buy CyBerCorp for about $450 million in stock. Berber felt the company was worth "maybe half that," so he jumped at the offer. He netted more than $220 million. His timing was perfect: The Internet crashed weeks later, and electronic-trading stocks plummeted. Even though he was paid in Schwab stock, Berber sold the bulk of his holdings before it hit bottom.

"After 20 years, I became an overnight success," he says.

Berber promised to stay at the company at least a year to help with the transition. The same night he sold CyBerCorp, however, his new career as a venture philanthropist was already unfolding.

Just before midnight on February 1, 2000, Berber was sitting in his hotel room in New York, putting the final touches on the deal, when his wife, Donna, burst in the room. She had just spent the day at the Ethiopian embassy in Washington, D.C., meeting with the country's charity liaison. The Berbers had been fascinated by Ethiopia ever since 1985, when they attended the Band-Aid rock concert at Wembley Stadium to benefit Ethiopian famine victims. The images of emaciated children, and the role that organizer Bob Geldof played in raising awareness for the cause, inspired the Berbers. They promised themselves that if they ever came into money, Ethiopia would be their number one cause.

In 1999, after selling some shares of private stock in the company, the Berbers set aside $200,000 to fund an orphanage in Ethiopia. When Donna visited the embassy to work out the details, she met a man named Tameru Abasaba—a learned aid expert who came from one of the poorest regions of Ethiopia. Tameru's job at the embassy was to coordinate aid by Americans to Ethiopia.

During the meeting, both Tameru and Donna cried as they talked about the 1980s famine. Tameru told her that creating an orphanage was a nice idea, but that the Ethiopians really needed clean water and health care.

Tameru recalls: "I said to Donna 'Just go there and see for yourself. Ask the Ethiopians what they need. Then decide.'"

Donna flew to Addis Ababa and spent several days handing out bread and clothes to crowds of sick children huddled on the streets of the city.

"My whole world opened up," Donna recalls. "I had no frame of reference in my own mind, so to show up and to

see that kind of suffering and despair and problems that were so vast in nature, it changed my perspective. At the same time that these people were suffering, they were also so dignified and proud."

Philip made his own trip to Ethiopia a few months later and was equally transformed.

"When I came back from Ethiopia, I knew that my days of working for a living, of being a corporate entrepreneur were numbered," he says. "It totally changed my thinking."

Berber resigned in late 2000, and he and Donna decided to commit $100 million in Schwab stock to Glimmer. While the Berbers still live very comfortably—they charter planes, have a big house and drive a silver Ferrari—they plan to give even more of their fortune away as time goes on.

"For Donna and me, we didn't come from this American materialistic thing. For me this work seemed much more fulfilling than hoarding dollars the rest of our lives."

Still, Berber wasn't ready to abandon his tech-start-up business impulses. His whole life had been built around financial-trading models, Internet software, scalability and return on assets. He was a dyed-in-the-wool entrepreneur, always looking for cheaper, faster ways of delivering products or services. For Berber, efficiency was king. And he wasn't about to give it up for some touchy-feely notion of philanthropy.

"There was nothing philanthropic about dot-coms and day trading," he says. "Donna started this journey from the heart. For me it was still about my head."

So Berber decided to give away his fortune the same way he made it—by following his business instincts. He created a business plan, wrote a mission statement and set "profit targets" and goals. At first, the Ethiopians didn't know what to make of Berber's corporate zeal. Some local NGOs that he tried working with refused, saying they couldn't follow all the strict rules. Others didn't believe Berber would make good on his promises.

"They said I was way too young to have so much money to give away," Berber said. "They didn't think I really had it."

In launching Glimmer, Berber came up with his own set of rules. They are, he says, basic principles of business that any philanthropist can apply to charitable giving.

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Berber admits there are times when his rigorous business model breaks down for charities. The morning after the Asian tsunami in 2004, he and his family sat around the breakfast table and decided to donate $1 million to the cause. The trouble was, Philip couldn't find a charity that met his tests for efficiency and business focus. It took him three weeks, and hours and hours of research to find a few relief groups that he was comfortable funding.

"The impulse to give was open-hearted but then the head kicked in," he says. "If I just wanted to give away the money to feel good, I could have given to the Red Cross. But the social investor in me had to do my homework."

Berber recognizes that he's invented a career that has never really existed. He's not a member of the "idle rich," or a traditional philanthropist. And he's not really an entrepreneur, since he gives away money. His business card simply reads "Philip Berber—Glimmer of Hope." When people ask him what he does for a living, he usually fudges the answer.

"I really struggle with that," he says. "I wish I had a quick word people understood. Philanthropist? I can hardly spell the word. Humanitarian? That's too highfalutin'. If I say charity work, that's wrong, too. If I say social entrepreneur or social investor, people say, 'Oh, you're a banker?' So I'm kind of at a loss on that one."

In the end, Berber just hopes he can make a difference in a part of the world that needs it most. And, perhaps in the process, he hopes to lead the way to a new brand of philanthropy.

"What's my legacy?" he says. "I don't know. I guess I don't ask to be remembered for anything. My needs are more simple than that. We do what we can during this lifetime for the well-being of those who are less fortunate. When I'm six feet under and lying in a box . . . legacy, shmegacy, it doesn't matter. I'm enjoying what I'm doing in this lifetime, and if I helped a few people and set a good example for my children, that would be great."