



At Issue: Venture Philanthropy— A Model of Innovation vs. a Model of Intrusion

Introduction

Venture philanthropy is the latest buzz in grantmaking strategies. Some call it “the new philanthropy,” others call it “social ventures.” Some see it as a hot trend in how philanthropists do business, while others claim it is the same philanthropy they have practiced for years. Everyone from philanthropists to scholars to the media has joined the debate over venture philanthropy. But are they talking about the same thing?

This board briefing will attempt to answer the following questions: What is venture philanthropy? How is it different from traditional philanthropy? and Will it change anything?

History

People use the term venture philanthropy to describe different, although interrelated, things. One definition of venture philanthropy refers to a certain *type of grantmaker*, another describes a *model of grantmaking*. For the purposes of this board briefing, we will focus on venture philanthropy as a model of grantmaking.

According to its adherents, venture philanthropy is based on principles of entrepreneurial business. It combines the practices of long-term investment and venture capital of the for-profit sector with the mission-driven principles of the nonprofit sector.¹ Just as an entrepreneur invests venture capital (start-up money) in a potential business blockbuster, a donor invests its funds—and its expertise—in a nonprofit, with a plan to build that nonprofit’s self-sustainability and accountability, and, if it is successful, replicate it.

According to the Center for Venture Philanthropy, venture philanthropy includes the following five elements:

- (1) investments in the long term (3–6 year business plans);
- (2) a managing partner relationship between the donor and the nonprofit;
- (3) an accountability-for-results process;
- (4) provision of cash *and* expertise; and
- (5) an exit strategy.²

¹ Nonprofit Enterprise and Self-sustainability Team, International Venture Philanthropy Forum, www.nesst.org/listings/Forum.htm.

² Center for Venture Philanthropy, Peninsula Community Foundation, www.pcf.org

Rather than an arms-length relationship between donor and recipient, venture philanthropy promotes a hands-on approach between donor and nonprofit *partners*. Instead of funding short-term projects, investors make *long-term funding commitments*—anywhere from three to six years. During this time, the investor offers not only money but also *technical assistance*, such as time, skills, technology or management advice. By offering money and assistance, the investor hopes to build the nonprofit's financial independence and organizational capacity. Instead of perpetuating a nonprofit that depends on charity year after year, the investor creates an *exit strategy*—a plan for making the group self-sustaining after a few years of support. With long-range funding and technical assistance, the investor hopes its nonprofit partner will no longer need outside funding to continue its work.

The venture philanthropy model, like that of venture capitalism, also relies on the bottom line. Instead of referring to profitability, the bottom line here refers to finding outcome-based solutions to the underlying problem. Venture philanthropists concern themselves with *accountability* in seeking solutions, holding the nonprofit accountable through predefined measurement tools and performance objectives. With a focus on the bottom line and accountability, venture philanthropists hope to understand and solve the root of social problems.

The above five elements describe what venture philanthropy funds *can* encompass—although not all of them do. Some who call themselves venture philanthropists incorporate all of these elements, while others incorporate only one or a few. Even those funds that share the same elements may operate in very different ways. Because the venture philanthropy trend is diverse and ever-evolving, defining it has caused confusion.

Is Venture Philanthropy New?

***Venture philanthropy* is not new term. John D. Rockefeller III used it in 1969 at hearings before the Committee on Ways and Means, on the subject of tax reform.**

Private foundations often are established to engage in what has been described as 'venture philanthropy,' or the imaginative pursuit of less conventional charitable purposes than those normally undertaken by established public charitable organizations.

The Peninsula Community Foundation also lays claim to the term. In 1984, then-Executive Director Bill Somerville used the metaphor when explaining the foundation's work to a group of Stanford students. Since then, many others have used the term as well. So, is venture philanthropy new? That depends on whom you talk to. The term may not be new, but perhaps the packaging is. In the end—new or not—it does not matter. This part of the debate only distracts from the larger grantmaking issues.

Will Venture Philanthropy Change Anything?

What Advocates Say

Advocates promote venture philanthropy as an antidote to what they see as the failings of mainstream philanthropy.³ They argue that most traditional foundations are too project-driven, funding single endeavors rather than long-term organizational needs. In the past, foundations have hesitated to fund operating costs and overhead, leaving some nonprofits with a slate of projects but no additional funds to pay the rent. With many projects but no overhead, nonprofits have little time, critics say, to fundraise for long-term security and a stable environment.

Foundations, proponents say, don't do enough to help nonprofits recruit and train qualified staff members, improve their computer and accounting systems, or develop sophisticated tools to track the results of social-service systems.⁴ As a result, nonprofit groups often burden their time with fundraising and special-project bookkeeping instead of serving their constituency and working to solve social problems.

Advocates believe venture philanthropy remedies the nonprofit struggle through donors who

- offer nonprofits long-term funding, which gives them time to plan for the future;
- offer extensive technical assistance, which helps their infrastructure grow; and
- involve themselves with the nonprofit groups by offering expertise and assistance, which builds trust and partnership between grantors and grantees.

According to Carol Welsh Gray, director of the Center for Venture Philanthropy, "Venture philanthropy is an ongoing dialogue that extends over years between grantmakers and charities, not a one-shot grant application in which money is sent out the door and you hear later how things are going."⁵

With this long-term, highly involved support from grantmakers, advocates believe that nonprofits can flourish and real social change will occur.

What Critics Say

Critics argue that applying venture capital models to philanthropy will not work. By their nature, business and nonprofit endeavors have very different goals. The venture capital model calls for investing a lot of money

Venture Philanthropy as a Type of Grantmaker

The venture philanthropy movement has most widely been identified with the new wealth generated by tech stocks, dot-coms and the younger generation. While it is true that some dot-com millionaires and young heirs model their giving on venture philanthropy, venture philanthropy is not limited to this group of people. In fact, many long-established philanthropists in traditional foundations are using the term to describe their work.

³ Thomas Billitteri, "Venturing a Bet on Giving," Chronicle of Philanthropy, June 1, 2000.

⁴ Ibid.

⁵ Carol Welsh Gray, Center for Venture Philanthropy, www.pcf.org.

up front, making big returns and then pulling out. Permanent social change, however, does not happen fast. How long will investors be willing to wait for their return?

Critics also balk at what they perceive as venture philanthropists' over-involvement with grantees. In some cases, venture fund representatives have taken seats on the boards of grantees and even volunteered at the nonprofit, performing staff tasks and activities. Critics argue that too much involvement with the grantee is intrusive, as it may steer policy decisions. Does this model tempt donors to meddle in their grantee's missions or procedures, areas held strictly offlimits by the standards of so-called traditional philanthropy? And if the organization isn't successful, will donors share the blame?

Moreover, critics say the emphasis on accountability and quantifiable outcomes does not translate to the nonprofit world. While the pressure for measurable outcomes is felt throughout the nonprofit world, one CEO describes a frustration he attributes directly to venture philanthropy. "There are new people coming in now who don't understand what we do and how we do it, and are trying to impose their value system on us. They are not using standards that make sense. Donors sometimes look to quantify the unquantifiable by asking for marked changes in people receiving aid for such social ills as alcoholism, domestic violence and drug abuse."⁶

In Sum

No one yet knows if venture philanthropy strategies will bring about greater social change. Some leaders are calling for an end to the debate:

Dueling Stereotypes

Some traditional philanthropists are worried inexperienced venture philanthropists are trying to supplant a tried-and-true method of grantmaking. Some venture philanthropists, on the other hand, see their traditional colleagues as stodgy, bureaucratic and ineffective—check writers instead of problem solvers. These personal stereotypes often confuse the real question: Will venture philanthropy bring about greater social change?

The real solution for helping nonprofits deliver social services more effectively is neither a clean break from the past nor a stubborn resistance to change. The road to progress is partnership—a partnership under which the established and the new work side by side.

—Mario Morino, in an address to the Washington Regional Association of Grantmakers, June 21, 2000

While nonprofits grapple in working with both types of funders, the conversation among donors will no doubt continue.

⁶ Murray M. Coffey, "Venture Philanthropy," June 1999, *Business 2.0*

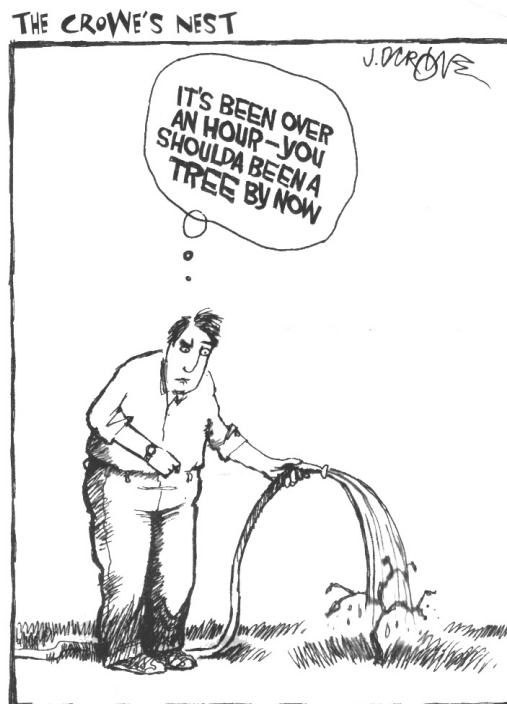
Ask Yourselfs

- Where do we stand on venture philanthropy?
- In our view, what level of involvement between funders and recipient organizations is healthy? Intrusive?
- How would our grantees feel about a venture philanthropy approach to giving?
- Venture philanthropy is resource intensive. Would our foundation have the time, money, talent (internally or through consultants) and evaluative measures to sustain venture philanthropy grants?
- If we decided to embrace the venture philanthropy approach, how would we choose which grantees would receive our long-term support?
- How would the community view the change from our funding many nonprofits to only funding a few? What public relations plan could we enact to communicate this change to the community and the media?

Venturing Language

Venture philanthropy is changing the language of grantmakers. Here are a few examples:

<u>Old Jargon</u>	<u>New Jargon</u>
<i>Donor</i>	<i>Social Investor</i>
<i>Foundation Officer</i>	<i>Managing Partner</i>
<i>Grantee</i>	<i>Investee</i>
<i>Nonprofit Leader</i>	<i>Social Entrepreneur</i>



THE NEW PHILANTHROPIST

Venture Philanthropy Resources

Publications, Reports, Articles

Venture Philanthropy: Landscape and Expectations

Prepared by Community Wealth Ventures, Inc., for the Morino Institute, this report describes the current venture philanthropy landscape and outlines some of the opportunities and challenges of the venture philanthropy model. March 2000. Available online at www.venturephilanthropypartners.org.

Unleashing New Resources and Entrepreneurship for the Common Good

A report from the W.K. Kellogg Foundation that provides an overview of innovations in using resources for the public good; includes a section on "Philanthropy as Social Venture Capital." To contact the W.K. Kellogg Foundation, go to www.wkkf.org.

New Frontiers in Philanthropy

Diane Gingold, July 2000. Research for this report initially was undertaken as a special report for *Fortune* magazine. Synopsizes some of the current thinking about the impact of the new economy money and strategies on the nonprofit landscape. Discusses venture philanthropy in the section titled "New Business Practices for the Nonprofit Sector." The full report can be viewed at www.fortune.com/fortune/sections/amyouth/amy.htm.

"Foundations for the Future: Emerging Trends in Foundation Philanthropy"

Lucy Bernholz, Blueprint R & D, San Francisco, December 1999. Discusses emerging trends in philanthropy and the impact on foundations. Contact Blueprint R & D at www.blueprintrd.com.

Financing Alternatives for Nonprofit Organizations

Caroline Williams, Grey Seal Capital, 1999.

Presents a basic overview of the types of capital available to nonprofit and for-profit organizations. Available online at www.greyscale.org.

"Philanthropy's New Agenda: Creating Value"

Harvard Business Review, November/December 1999. Article on strategic foundation giving. (Abstract only.) Article can be purchased online at www.hbsp.harvard.edu/products/hbr.

"Venturing a Bet on Giving"

Thomas Billitteri, *Chronicle of Philanthropy*, June 1, 2000. Go to www.philanthropy.com.

"Virtuous Capital: What Foundations Can Learn from Venture Capitalists"

Christine Letts, William Ryan and Allen Grossman, *Harvard Business Review*, March/April 1997.

Challenges foundations to consider expanding their mission from investing only in program innovation to investing in the organizational needs of nonprofit organizations using venture capital techniques. Go to www.hbsp.harvard.edu/products/hbr.

"Venture Philanthropy"

Worth, February 1999. Article on the Roberts Foundation and its Enterprise Development Fund. Go to www.worth.com.

Organizations

Ashoka: Innovators for the Public

Ashoka is a venture capital foundation that provides financial backing and expertise to social entrepreneurs to facilitate social change. Ashoka searches the world for the best new ideas, championed by the most capable, innovative social entrepreneurs.

1700 North Moore Street
Arlington, VA 22209
Phone: 703/527-8300
www.ashoka.org

Community Wealth Ventures

Advises nonprofit practitioners and investors on how to strengthen their social impact by stimulating new sources of revenue.

733 15th Street, NW, Suite 600
Washington, DC 20005
Phone: 202/478-6570;
www.communitywealth.com

Entrepreneurs' Foundation

Identifies and supports strong leaders in the nonprofit sector whose smaller-scale programs have been successful and who have the ability and desire to expand to meet a broader social need.

19450 Stevens Creek Blvd., Suite 200
Cupertino, CA 95014
Phone: 408/342-0748
www.the-ef.org

Morino Institute

A member of the Council on Foundations, the Morino Institute leads an effort to establish Venture Philanthropy Partners, a new philanthropic fund to improve services to children living in low-income areas in the national capital region.

11600 Sunrise Valley Drive, Suite 300
Reston, VA 20191
Phone: 703/620-8971
www.morino.org

Net Impact

Net Impact is a network of emerging business leaders committed to using the power of business to create a better world.

609 Mission Street, 3rd Floor
San Francisco, CA 94105
Phone: 415/778-8366
www.net-impact.org

New Profit, Inc.

Operates a fund to expand and replicate proven nonprofit organizations.

2 Canal Park
Cambridge, MA 02141
Phone: 617/252-3220
www.newprofit.org

Northern Virginia Community Foundation

Located in McLean, Virginia, this Council on Foundations member envisions itself as “venture capitalist in the world of philanthropy,” according to foundation President Frederick J. Tansill.

8283 Greensboro Drive
McLean, Virginia 22102
Phone: 703/917-2600
www.novacf.org

The Peninsula Community Foundation

A member of the Council on Foundations, the Peninsula Community Foundation is one of the fastest growing community foundations in the country. Peninsula houses the Center for Venture Philanthropy—founded in 1984—which harnesses and manages wealth from Silicon valley and beyond for laudable social purposes. Stresses outcome-based goals and accountability.

1700 South El Camino Real, Suite 300
San Mateo, CA 94402
Phone: 650/358-9369
www.pcf.org

Roberts Enterprise Development Fund

As the venture fund of the Roberts Foundation—as Council on Foundations member—the REDF provides multi-year philanthropic investments to nonprofit organizations operating business ventures employing low-income individuals throughout the greater San Francisco Bay area. REDF is also a scholarly leader in the field of venture philanthropy and social entrepreneurship.

Presidio Building 1009, First Floor
P.O. Box 29266
San Francisco, CA 94129-6677
Phone: 415/561-6677
www.redf.org

Social Venture Partners

This foundation’s work has been widely cited as the embodiment of the new philanthropy. Founded by technology and software magnate Paul Brainerd and former Microsoft executive Scott Oki, SVP hopes to bring the dynamic vitality of the private sector to the sometimes-stodgy world of philanthropy.

1601 2nd Avenue, Suite 615
Seattle, Washington 98101
Phone: 206/374-8757
www.svpseattle.org

Urban Enterprise Fund

Provides capital and management assistance to start and expand small companies (nonprofit or for-profit) that create employment opportunities for hard-to-hire individuals.

1111 N. Wells, Suite 502
Chicago, IL 60610
Phone: 312/573-8908
www.urbanenterprise.org