

VENTURE CAPITALISTS AND ENTREPRENEURS BECOME VENTURE PHILANTHROPISTS

By

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ABSTRACT

Within the context of social entrepreneurialism, non-traditional charitable sources of revenue may be categorised as follows:

- *Corporate Strategic Giving with funding and resources seen as an investment to achieve corporate business aims (cause-related marketing, co-branding and sponsorship).*
- *Venture Philanthropy, human resources and funding invested in the charity by entrepreneurs, venture capitalists and corporations in search of a social return on their investment.*
- *Commercial Ventures / Social Enterprises seeking a financial return on investment, businesses (franchising, licensing, mission and non-mission-related business enterprises and joint ventures) operated by charities and their trading / holding companies alone or in partnership with the corporate sector, venture capitalists or venture philanthropists.*

This article demonstrates how charities, venture capitalists and entrepreneurs may work together in strategic alliances. It explores venture philanthropy from the perspective of venture capitalists and entrepreneurs, giving examples. Charities are shown how to prepare themselves to take advantage of these entrepreneurial opportunities.

Although the emphasis in this article is on venture philanthropy, the processes outlined may be used to help a charity take advantage of opportunities within the broader social entrepreneurial context.

1. INTRODUCTION

After serving on a local government body, George Bernard Shaw guessed that few people, five percent, are blessed with political ability, the talent to turn innovative thoughts into action and results. Successful venture capitalists and entrepreneurs have demonstrated the ability to turn business ideas into results and are now turning their attention to helping charities achieve their mission.

These are challenging times for charities. Over 180,000 charities in the United Kingdom are competing directly or indirectly for clients, volunteers, members, and for the time and resources of supporters.

To remain vital, to stay ahead, a charity's leadership must not stand still. They must innovate, becoming more socially entrepreneurial, creating and implementing new ways to generate additional and diverse sources of revenues. They must learn to manage innovation and be commercially entrepreneurial, all the time protecting their mission and living their core values.

This article demonstrates how charities, venture capitalists, entrepreneurs and companies may work together in strategic alliances. It explores venture philanthropy from the perspective of venture capitalists and entrepreneurs, giving examples. Charities are shown how to prepare themselves to take advantage of these entrepreneurial opportunities.

2. SOCIAL ENTREPRENEURIALISM: THE CONTEXT

Venture philanthropy is one of many creative sources of private funding for charities and/or their commercial arms – the funding ranging from sale of shares / venture capital to distributor / partner investment, licensing / franchising, bank loans / bonds and traditional donations.

However, within the context of social entrepreneurialism, non-traditional charitable sources of revenue may be categorised as follows:

- **Corporate strategic giving** with funding and resources seen as an investment to achieve corporate business aims (cause-related marketing, co-branding and sponsorship).
- **Venture philanthropy**, human resources and funding invested in the charity by entrepreneurs, venture capitalists and corporations in search of a social return on their investment.
- **Commercial ventures** (social enterprises) seeking a financial return on investment, businesses (franchising, licensing, mission and non-mission-related business enterprises and joint ventures) operated by charities and their trading or holding companies alone or in partnership with the corporate sector, venture capitalists or venture philanthropists.

Although the emphasis in this article is on venture philanthropy, the processes outlined may be used to help a charity take advantage of opportunities within the broader social entrepreneurial context.

3. VENTURE PHILANTHROPY: DEFINITION AND EXAMPLES

3.1 Win-Win

As a senior staff leader of a charity in the nineteen eighties I was involved in venture philanthropy activities, including convincing a company to invest in the charity. They helped with the expansion of one of the charity's mission-related commercial ventures by funding the franchising of the service.

- This was social investment on behalf of the company in the charity.
- It helped the charity increase and diversify its revenue base.
- It fulfilled the business goals of the company by ensuring their employees across Canada received a wonderful employee benefit.
- Employees received much needed

Everyone won!

In an recent article entitled High Engagement Philanthropy (C. Letts and W. Ryan, Stanford Social Innovation Review) funders and grantees reported that there was improved organisational capacity with better evaluation systems; marketing, business and strategic planning; and fundraising. Funder involvement and partnering lead to improved organisational performance and growth.

3.2 Definition

A variety of funders in North America have defined venture philanthropy emphasising different elements. In essence, they see it as similar to that of venture capitalists, taking the initiative, but investing in new or growth ideas generated by charities. It includes taking a performance centred, results orientation. Business plans articulating a 'product' to meet a significant need, implementation supported by an innovative and entrepreneurial management, and good cash management are seen as key elements of success.

Venture philanthropists want a close relationship with the social entrepreneur investing time, human and financial resources intimately helping to achieve the business plan targets. Venture philanthropists engage with charities over a long term as true partners, their 'investment' being in effect a donation – a high engagement donation.

The primary difference between venture capitalist approach and venture philanthropy is in the:

- Return expected – a financial return on investment for the former, a social return on investment for the latter.

- Exit strategy, venture philanthropists having a special focus on sustainability.

The remainder of this section lists gives some examples of funds (quoted from their websites).

3.3 Examples US

In the US there are 42 funds, with funds totalling \$400M. Over two thirds have been incorporated since 1999. It appears that venture philanthropy is thriving despite end of technology boom.

The following are some examples demonstrating the variety of applications of the concept.

- Peninsula Community Foundation / Center for Venture Philanthropy (CVP) (California) looks for long term business plans, partnering, a results orientation, investment of funds and expertise, and an exit strategy. They invest in three-year business plans of an organisation or partnership that is new or moving to a new stage. For example, they support helping low income people develop Individual Development Accounts, matching an individual's saving two to one, the funds used as a personal investment in a home, business or education.

The CVP was launched in 1999, to create an environment where community donors could collaborate and drive positive change in our communities. Using a venture capital model, investors base "social venture funding" on results-oriented business plans. Investors work directly with the CVP staff and nonprofit leaders to understand community and nonprofit issues, problem-solve, and structure their investments. The CVP's first Social Venture Fund, the [Assets for All Alliance](#), has won national recognition for its anti-poverty efforts and leads the country in terms of documented results. The [Raising A Reader™](#) venture fund, which provides take-home book bags and children's books to encourage early literacy, continues to expand its local and national outreach, garnering praise from child development experts.

- New Profit Inc. (Mass.), in addition to the criteria outlined above, invests based on performance rather than need. They work with successful social entrepreneurs funding the highest performers; use due diligence to create a portfolio of organisations to support; and provide strategic and growth advice; look for a social return.
- The Marino Institute (Virginia) focuses on 'netpreneurs', providing funds and management assistance. It also invests in building the capacity of organisations serving children.

The following are some further examples from an extensive programme of venture philanthropy in North America.

- Entrepreneurs' Foundation (California) work with hi-tech companies incorporating community involvement as a core element of start-up companies. It provides strategic and networking resources to charities as well as support for youth programmes.

“As EF implements venture philanthropy strategies, it will add value to Partners in School Innovation through Myers' active participation on the board, collaboration to implement Partners' business plan, arrangement for specialized expertise to help anticipate and meet the management challenges of growth, and the introduction of Partners to many potential supporters in the entrepreneurial sector. EF has already worked with Partners' management team to develop a new five-year plan as well as quarterly milestones and performance measurements. EF's initial investment represents a 20% increase in Partners' budget, enabling the organisation to hire key people and retain existing team members. It will help Partners to build the capacity to deliver services to many more schools than would otherwise be possible. Just as a venture capital firm would do, EF anticipates making additional investments in Partners in School Innovation as the organisation achieves its milestones and performance measures” (November 1999 Press Release).”

- Robin Hood New York (New York) concentrates on early childhood, education, youth, and job training programmes, as well as basic survival programmes in healthcare, hunger, housing, and domestic violence.
- The Roberts Enterprise Development Fund (California) support charities that provide transitional and permanent employment support to low income and homeless people.
- The Flatiron Future Fund and Flatiron Foundation (New York) assist charities that help minority entrepreneurs and children's technology education. Flatiron Partners, a venture capital group that invested successfully in many Internet-based start-ups, chose to approach social entrepreneurship from two fronts. It formed the Flatiron Future Fund to make venture capital investments in early-stage, for-profit businesses that have a social mission. A separate organisation, the Flatiron Foundation, makes grants to early-stage nonprofits.

Both groups share a common mission and method. To meet the criteria for funding, organisations must show visionary leadership, an ability to grow a program and be willing to meet performance goals and accept a high level of involvement from the funders (beginning with a seat on the organisation's board).

- The Community Development Venture Capital Alliance (New York) uses equity capital and entrepreneurial assistance to support job creation in economically distressed communities.

- Community Wealth Ventures (Washington, DC) works with others, providing a clearinghouse of information in support of organisations promoting social change using resources produced from charity run commercial ventures.

3.4 Examples Canada

- Social Venture Partners, Calgary wishes to achieve positive social change in Calgary by committing time, money, and expertise to nonprofits to collaboratively strengthen their organisations, and by educating partners to be well-informed, effective philanthropists.
- BC Technology Social Venture Partners is a charitable foundation created in August 2001, by individuals in BC's technology and venture capital industries. They employ a venture philanthropy approach to supporting positive social change in the community.
- Social Capital Partners invests in and incubates revenue generating social enterprises that employ at-risk youth and other populations outside the economic mainstream in Canada. The goal of these social enterprises will be to acquire scale, to eventually exist without external funding, and to create improved social outcomes and financial self-sufficiency for the populations they employ.
- J.W. McConnell Family Foundation vision is a society in which all Canadians have the opportunity to develop their potential and to engage fully as citizens in the exercise of their rights and responsibilities. Their mission is to support projects and programs that enhance the ability of Canadians to understand, adapt and respond creatively to the underlying forces which are transforming Canadian society and the world. They are currently funding approaches that create capacity in an organisation that in turn provides human and financial support to social enterprises.
- Tides Foundation is a national foundation with a focus on providing charitable giving services to donors interested in values-led philanthropy. One of its approaches is to partner with the United Way of Toronto setting up a venture philanthropy fund.
- Enterprising Non-profits Program Vancouver is a partnership between VanCity Foundation, The Vancouver Foundation, United Way and VanCity Credit Union, is a funding program that provides matching grants to non-profit organisations in British Columbia who are interested in starting or expanding a business.

3.5 Examples UK

Venture philanthropy, as in Canada, is in its early development stages. The following are some examples and models that, depending on one's definition, may be categorised as venture philanthropy.

- Impetus Trust is believed to be the first general venture philanthropy charitable fund in the UK. Impetus Trust strives to make the biggest difference with donors' money by helping the charities it supports to achieve a step-change in their performance. The ultimate goal is to enable these charities to have a greater impact on the lives of more people in need by improving the quality, efficiency, and effectiveness of the services delivered. Our aim is to maximise the social return on investment for these charities, for our donors and for Impetus Trust.

Impetus Trust seeks to support established charities facing a critical change either because they are poised for rapid growth, they need a turnaround in performance or they are planning a merger or alliance. Impetus Trust will focus on medium-sized charities delivering services directly to a substantial number of socially or economically disadvantaged beneficiaries. We believe this is where we can make the biggest difference.

- World in Need was the driving force behind the creation of many new charities, including Oxfam, Help the Aged and ActionAid. Building on his unique way of working, World in Need today helps launch new charities and grows them to viability. They invest in visionary leaders using a hands-on approach to grant making.
- Globalegacy is a business development company that serves impoverished communities and their entrepreneurs in cities worldwide. They help build, support and bring to scale small and medium sized enterprises in these communities. They combine SRI funding with a form of venture philanthropy.
- ARK's mission is through the support of local and international projects, to transform the lives of children, who are victims of abuse, disability, illness and poverty. This is achieved by providing grants to charities and charitable projects whose activities have been comprehensively researched by ARK, and where ARK has a high degree of confidence that funds will be efficiently and effectively deployed. ARK's activities are supervised by an international group of professionals from within the Alternative Investment Industry who apply the same principles and disciplines to managing the charity as they have done in their own businesses.
- Other granting and support funds that may be included in a broader definition of venture philanthropy may include Glimmer of Hope, Pilotlighting, and Shine Trust.

- Of special interest is a model that is developing where individual charities build their own funds in partnership with an individual, applying the venture philanthropy type support to the organisation specific projects. Examples include Help the Hospices, Plan International and Laidlaw Youth Project in Scotland.
- Corporations are also exploring this area as one of a number of ways of fulfilling their CSR responsibilities. This becomes a win-win for the company fulfilling a number of business aims whilst involving employees in supporting the development of charities.

3.6 Examples International

International examples described in the Wall Street Journal (07 June 2000) include work of Martin Varsavsky supporting the development of an education Internet portal in Argentina and of Klaus Tschira in Germany in the field of information technology.

Another example, working in South America and Eastern Europe, is NESsT. It believes that some organisations can increase their long-term viability and independence through the use of entrepreneurial, "**self-financing**" strategies to generate resources that supplement philanthropic support from public and private donors. Through our applied research, capacity-building, philanthropic investments and outreach initiatives, NESsT

- Shares lessons-learned and develops practical tools for practitioners to help them evaluate the feasibility and effectiveness of self-financing.
- Builds the capacity of entrepreneurial organisations to implement self-financing strategies that further their mission.
- Advances the awareness, critique and support of self-financing.

4 VENTURE PHILANTHROPISTS: MOTIVATION

Wired Magazine (September 1999), in an article entitled 'Nonprofit Motive', outlines some of the motives of venture philanthropists. These include being motivated by one's peer group; feeling the joy of giving and intellectual stimulation applying one's knowledge and values especially as it relates to entrepreneurialism (having an idea and making it happen); overcoming 'an image of stinginess'; and enjoying tax advantages whilst controlling how one's money is spent.

Often, entrepreneurs get their employees involved thus providing them with alternative challenges whilst building employee loyalty.

Pressure is also increasing on entrepreneurs to participate more actively in their communities. In Canada, The Conference Board of Canada and the University of Toronto offer a Certificate in Corporate Social Responsibility, a sign of the growing importance of corporate social responsibility. The programme shows how to 'achieve business objectives by integrating

economic, social and environmental challenges and opportunities into their long-term corporate strategy and day-to-day business practices' Canadian FundRaiser 27 December 2000).

In the UK, the Social Investment Task Force, in its report *Enterprising Communities: Wealth Beyond Welfare* (October 2000), strongly encourages private sector financial and management support helping 'move away from this culture of philanthropy, paternalism and dependence towards one of empowerment, entrepreneurship and initiative' (page 4) It recommends to government policies to support venture philanthropy. These include a community investment tax credit, community development venture funds with matched public and corporate sector funding, disclosure of individual bank lending activities in under-invested communities, and support for community development financial institutions.

Finally, from a corporate entrepreneurs' perspective societal order is valued for its positive impact on business. Being involved with social entrepreneurs is good business. Charities break down barriers, harness and enhance skills, and help build a cohesive vibrant community.

5. STRATEGIC ISSUES FOR THE VENTURE PHILANTHROPIST

5.1 Your Definition

From a corporate entrepreneurial perspective, it is important to settle on what is meant by venture philanthropy.

It could mean acting as a venture capitalist investing in commercial enterprises operated by charities and their trading or holding companies, investing as any venture capitalist would using the same model and standards of due diligence seeking a financial return on investment for both parties. This approach would ensure ownership by the charity; support their business-like efforts, which if done properly would impact on the efficient and effective use of resources throughout the charity; and create sustainability through income from the charities commercial ventures portfolio.

A second approach follows the North American model, investing in charities to achieve a number of measurable social results. This could include start-support, risk venture financing to demonstrate new and creative approaches, infrastructure development or investing in people, seeking a social return on investment by using a modified venture capitalist model.

This latter model could include:

- The creation of venture funds.
- A long term financing commitment over several years.
- Getting involved by:
 - Giving management and growth advise.
 - Potentially having a seat on the Board of Trustees.

- Playing a role in the recruitment of senior managers.
- Agreeing to, monitoring, evaluating the business plan and playing a role revising the service implementation process.
- Creating an exit strategy and exercising it with the charity.

5.2 Cultural Differences

It is important for the venture philanthropist to recognise that charities are different from businesses. Each has to be business-like, utilising resources in the most efficient and cost effective manner possible. However, the bottom line for a business is to make a profit. For a charity, its primary purpose is to help, with profit not being in the equation. Therefore a charity makes decisions based on an end different from a business. Values may be similar, ends definitely differ.

Another factor to be considered is that charities have multiple stakeholders, thus slowing down decision-making processes. Many charities may not be organisationally ready to be entrepreneurial. They may need basic support from the venture philanthropist to ready themselves.

5.3 Your Policy and Process

When starting off it is important for venture philanthropists to have in place a number of items including a plan which contains a vision and mission, sets funding area directions and priorities, outlines guidelines and a clear process including ongoing involvement and evaluation, and defines values in order to ensure there is a fit with charity partners. Business in the Community in its booklet, The Cause Related Marketing Guidelines, lists key principles, which have applicability to venture philanthropists. These include integrity, transparency, sincerity, mutual respect, partnership and mutual benefit.

Your screening criteria may include:

- Is the vision and mission appealing?
- Is the venture a good product / business idea?
- Does it meet a significant need / market?
- Is there a good strategy, business plan, exit strategy and applicability to other settings?
- Is there a good management team, the people to make it work, good track record?
- Do the numbers make sense?

5.4 Summary

In summary, strategic issues include:

- Addressing a significant problem with an innovative solution achieving a social return on your investment (SROI).
- Being with a winner / an entrepreneur.
- Trusting, truly partnering.

- Due diligence and ensuring fit with your values.
- Supporting a charity's efforts to become organisationally ready..
- Respecting cultural differences.
- Agreeing to an exit strategy leading to sustainability.
- Remembering process is important.

6. STRATEGIC ISSUES FOR THE CHARITY

There are several benefits to a charity. Venture philanthropy support:

- Generates revenue for the charity.
- Enables growth beyond its funding base.
- Create valuable new services to meet client needs.
- Reinforces an innovative and entrepreneurial spirit.
- Adds skills.

The entrepreneurial approach taken by an individual organisation to preparing varies depending on a number of factors including the organisation's current state of readiness and availability of resources. It may also comprise different combinations of trustees, staff, members, volunteers and stakeholders in multilevel, multifunctional, geographically dispersed teams working at various stages throughout implementation.

It is important to approach this in a systematic manner as outlined below. It describes steps to prepare an organisation as well as a product development process.

Systematic Approach

1. Determine organisational need to and the purpose of the venture philanthropy activities including commercial ventures.
2. Assess and begin the process of solving organisational readiness and commitment issues, barriers and inhibitors.
3. Search for service and funding opportunities.
4. Create possible new project/service/product/commercial ideas.
5. Screen ideas including preparing 'venture capital' business plans.
6. Research funding opportunities and secure funding.
7. Design and test.
8. Launch.
9. Ongoing review, evaluation and revision.

Some other points to consider:

- The purpose of business is to make a profit, whilst a charity's is to meet a need. This understanding of the difference in purpose, motives, goals and language is necessary, as the corporate entrepreneur may not have extensive experience with charities.

- Charities should establish policies in support of the profit motive for their commercial activities and for the venture philanthropic approach.
- Entrepreneurial values for consideration could include:
 - We are customer focused.
 - We strive for transparency and accountability.
 - We value effectiveness.
 - We accept change and support excellence.
 - We are responsive to the external environment.
- Venture capital business plans are specifically written to enhance the chances of investment in the idea. They should be carefully written with the venture philanthropist in mind and should focus on a series of issues related to the people involved, the opportunity, the context, and the possibilities for risk and reward.
- Preparation and presentation are crucial. Research the philanthropist and their activities. Arrange for a business-to-business presentation. In the presentation downplay the traditional approach of describing clients and their needs and how the charity helps them. Demonstrate knowledge about the philanthropist's industry, his place within the industry, his needs and priorities as they relate to his philanthropic goals, ideas or initiatives (an overview of the business plan) for the charity to implement and how it meets the needs of the venture philanthropist, and a business analysis of the charity to establish credibility.
- An additional step, leading-edge networking, may be taken to enhance the traditional and effective service / product development process described above. It is composed of a review of the literature and the web researching innovative programmes, products and services throughout the world to identify opportunities. This would consist of designing/implementing an exercise to identify and talk to experts on the leading-edge of servicing the target population group and in fields that face similar problems but in different forms. Included would be the identification and description of the innovative service(s) and a preliminary assessment of them as to their efficacy and applicability.

If funds are available, an organisation could design and host a special two to three-day creative session composed of internal and external stakeholders and the identified leading-edge experts to create ideas and plans for new products and services to meet the needs of the charity.

7. SUMMARY

Venture philanthropy is an application of the venture capitalist approach to investing in charities. It is a growing new source of funding whether it be for traditional venture capital funding of charity commercial ventures seeking a financial return on investment or for philanthropic purposes attempting to achieve a social return on the investment.

Most of the effort to date has been in North America. However, it is now at the beginning stage in the UK and Europe. There are many strategic issues for venture philanthropists to consider as there are for charity. Communication and understanding of differences and vision will be crucial to the success of Venture philanthropy.

It is now an opportune time to prove Shaw right. The talent to turn innovative thoughts and ideas into action and results is available to charities. Successful venture capitalist and entrepreneurs are turning their extensive energy and resources to help charities turn commercial venture business and social ideas into results.