

GROWING  
SOCIAL CAPITAL  
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WITH *ALLIANCE*

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REBELS WITH  
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ROB JOHN:  
TAMING THE  
WILD WEST

SOCIAL ENTREPRENEURSHIP

# postings

A SKOLL CENTRE PRODUCTION FROM OXFORD

VOLUME ONE: AUTUMN 2006

WHEN  
**MONEY**  
CAN CHANGE THE WORLD  
WITH **AL GORE**



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# TAMING THE WILD WEST

COULD THE 'EUROPEANISATION' OF VENTURE PHILANTHROPY CHANGE THE FACE OF SOCIAL SECTOR FUNDING? SKOLL FELLOW **ROB JOHN** INVESTIGATES.

**T**he term venture philanthropy (VP) was probably first coined in 1969 by the American philanthropist John D Rockefeller III, in a hearing before the US congressional committee leading to the Tax Reform Act. It is clear Rockefeller had in mind an adventurous approach to funding unpopular social causes, rather than an association with entrepreneurial business. Venture philanthropy exploded in the 1990s to ignite a debate on new forms of highly engaged grant making by foundations. An influential 1997 paper by Christine Letts in the *Harvard Business Review* challenged foundations to employ tools from venture capital to invest in the organisational, rather than programmatic, needs of social purpose organisations. At the same time, newly wealthy dotcom entrepreneurs-turned-philanthropists became associated with a growing interest in venture philanthropy, whose intrusion into the social sector world was not always warmly embraced.

Not without its sceptics, the US expansion of VP was more than once referred to as a 'Wild West' phenomenon – a chaotic field of trial and error by individuals, organisations and foundations.

Nevertheless, VP has the potential to contribute to developing a more

responsive and diverse capital market for the social sector. It provides a blend of performance-based development finance and professional services to social purpose organisations, helping them deliver greater social impact in the same way that venture capital helps build the commercial value of private companies.

Venture philanthropy in Europe has strong links to the private equity and venture capital community, giving it opportunities to influence the corporate social responsibility of a set of major players in Europe's financial services industry. Several new venture philanthropy funds have been established by philanthropists with successful careers in private equity. Europe's transitional countries, in central and eastern Europe, the Baltic States and the former Soviet Union, have under-capacitated social sectors and widespread, un-addressed social needs. Venture philanthropy may have a particularly valuable role in helping build stronger civil society institutions in these countries.

In my survey of venture philanthropy in Europe, the first in a series of working papers on venture philanthropy published by the Skoll Centre, I define philanthropy as "provision of finance to an organisation for predominantly social benefit". This

does not preclude any number of financial instruments, such as grants, returnable grants, loans or equity, where the primary purpose is creating social value not personal gain. In cases where the philanthropic capital is preserved or a financial return is made, these are secondary consequences. The primary test is motivation for giving (or lending) – which is congruent with the Greek and Latin origins of the word philanthropy (love of mankind).

This definition is somewhat unorthodox, partly because those who finance social purpose organisations while seeking to preserve their capital or make a financial return usually refer to their practice as social investment. Again the litmus test for venture philanthropy is the extent of engagement, not the financing instrument deployed. Most social investors will not be engaged in strategy and management with those they fund, nor in adding direct value beyond finance.

## THE EUROPEAN DIMENSION

Interest in venture philanthropy in the UK was aroused through articles in 2000 by Dr Henry Drucker, founder of Oxford Philanthropic. There was a growing buzz in grant-making circles about what was perceived to be a controversial American movement in philanthropy. In foundation circles at least, VP was becoming a mainstream topic for debate.

Between 2001 and 2006 there was considerable interest in innovations in social investment. New Philanthropy Capital (NPC) emerged as a research, advisory and brokerage intermediary, driven by the frustration felt by individuals from the investment banking industry in making philanthropic decisions. NPC's founders realised that in the social sector there was seldom a direct link between performance (in terms of sustained social impact) and funding. NPC argued that poverty of information about performance, or even agreement on what was meant by social impact, meant that the best projects or organisations could not guarantee attracting funds for their growth and development.

The first UK fund to deliberately describe itself as a venture philanthropy organisation was launched in 2002 by individuals from venture capital and consulting backgrounds. Impetus Trust was inspired by US models which strongly resonated with the professional investment experiences of its founders. It is a relatively pure, capacity-building model based on

grant funding of registered charities with growth potential.

In a highly significant development in 2006, Permira, a \$26 billion private equity firm (responsible for demutualising the AA), launched a venture philanthropy fund in partnership with the Community Action Network, focused on scaling up sustainable social enterprises. This high-profile endorsement of venture philanthropy could provide a model for the private equity community's relationship with the social sector.

Outside the UK, in continental Europe, there is a slow but steady arousal of interest in social investment and high-engagement models of philanthropy, but only in the last two or three years have new organisations or models emerged. A new European network, in particular, is spearheading this interest – The European Venture Philanthropy Association (EVPA), founded in 2003 by five executives from the European private equity/venture capital industry. Influenced by US VP practice, they originally conceived of an informal association to stimulate discussion, capture good practice and encourage new

philanthropic funds based on the high engagement model. But the appetite for networking and interest in VP was so great that EVPA recruited 30 members in its first 12 months, was formally endorsed by the European Private Equity and Venture Capital Association (EVCA) and was sponsored by three major European PE firms.

Involvement of EVCA and high-profile venture capital firms is interesting for an industry that generally has a low corporate responsibility profile. Although too early to tell, it may be that VP offers a channel for corporate philanthropy aligned to the core business practices of venture capitalists. One private equity firm recently decided to assign one per cent of its partners' carried interest to its own charitable foundation, which supports youth projects – a policy which may encourage other firms to develop more strategic approaches to corporate citizenship. The UK's largest corporate donor to charities, TCI, is a 9 billion Euro hedge fund, whose management fee structure provides income to an independent foundation.

Venture philanthropy appears to be an attractive development for the social

sectors in transitional European countries. Social purpose organisations are developing rapidly under newfound democratic freedom and economic reform. Taxation innovations such as the 'percentage laws' at work in Hungary, Poland, Slovakia, Romania and Lithuania, are encouraging popular philanthropy. Introduced first in Hungary in 1996, the '1 per cent law' enabled payers of personal income tax to designate 1 per cent of their previous year's paid income tax to an eligible social purpose organisation. In Lithuania the figure is 2 per cent of personal income tax, while in Slovakia an arrangement also exists for allocation of 2 per cent of company corporation tax.

Venture philanthropy has been greeted in the US largely by scepticism or downright hostility amongst foundation leaders. No single organisation or association became the 'voice' of venture philanthropy during the last ten years of rapid expansion in the US.

“There are early signs that European practitioners are not simply adapting but innovating classical US venture philanthropy.”



By contrast, EVPA's strategy has been to position venture philanthropy as highly complementary to foundation grant making, and not repeat the mistakes of VP marketing in the US.

Despite the early success EVPA has had in building bridges between VP operations and foundations and the private equity community, the difficulties in promoting what is perceived as an 'Anglo-Saxon' model should not be underestimated.

Anglo-Saxon, in this context, is a European suspicion of entrepreneurial individualism and the supremacy of the capital markets. In a landmark work on European foundations, Luc Tayart de Borms, while applauding the energy and innovation found in US philanthropy, emphasises that the strengths of European philanthropy lie in a European social model "based on social cohesion: full employment, open democracy and transparency in governance are givens".

While Europe might be viewed as cautious to embrace what is perceived as a US model, there are early signs that European practitioners are not simply adapting but innovating classical US venture philanthropy. An example of this is in the financial instruments used by European VP operations. While almost all US venture philanthropy is grant based, several European VP funds are open to experimenting with a wider spectrum of funding types. Noaber Group (Netherlands) and BonVenture (Germany) have developed corporate structures that allow grant funding to charitable organisations and debt or equity finance for social enterprises or socially-motivated for-profit businesses. In the UK, Venturesome concentrates on underwriting and unsecured lending products; on occasion, a stake in the performance of the organisation may be part of the investment (referred to as 'equity-like'). The ability to recycle funds several times, by using loans rather than grants, is an attractive prospect for Venturesome's investors. Impetus Trust (UK), although for the most part a grant-based VP fund, is



**Dr Rob John** is a Fellow at the Skoll Centre for Social Entrepreneurship. [rob.john@oba.co.uk](mailto:rob.john@oba.co.uk)

experimenting with 'surplus sharing' mechanisms and a strategic alliance with a grant-making foundation.

Some \$200 billion of European private equity is looking for a home in companies with growth potential or that are ripe for mergers which will bring efficiencies and profitability. PE companies and their start-up equivalents, venture capitalists, are active, highly-engaged investors that sit on the boards of firms they invest in, driving strategy, management and performance, and, when successful, creating huge financial rewards for their managing partners.

Social purpose organisations (SPO's) – charities and social enterprises – usually lack the kind of opportunity afforded to their private sector counterparts through investment by venture capital and private equity funds. But that's when venture philanthropy steps in.

The challenge remains for venture philanthropy to find its niche in the diversity of the European social capital market, but the bridges already built to foundations and the private equity community, along with the desire to share good practice and innovate, are all encouraging signs that the field is determined to build on US experience and develop appropriate European models.

Dr Rob John's working paper *Venture Philanthropy: the evolution of high engagement philanthropy in Europe* is published this month by the Skoll Centre. Download your copy at [www.sbs.ox.ac.uk/skoll/research](http://www.sbs.ox.ac.uk/skoll/research).

## SKOLL CENTRE BOOK EXPLORES NEW MODELS OF SOCIAL CHANGE

**T**he Skoll Centre has produced a major new book bringing together the thoughts and research of leading figures in social entrepreneurship from around the world.

Edited by Skoll Centre lecturer Dr Alex Nicholls, *Social Entrepreneurship: new models of sustainable social change* looks at new perspectives and theories, new models and new directions for the sector (OUP).

In his introduction, Dr Nicholls says social entrepreneurship is "generating entirely new paradigms of social value creation and systemic change that are creating their own definitional terms and taxonomies as they emerge".

He says the book explores "the multiple dimensions of social entrepreneurship across the world from a variety of perspectives in the hope of providing practitioners and academics alike with both new thinking and new models of action".

The list of contributors reads like a who's who of global social entrepreneurship. It includes: Muhammad Yunus, founder of the Grameen Bank; William Drayton, founder of Ashoka; Skoll Foundation CEO Sally Osberg; Schwab Foundation managing director Pamela Hartigan; former president and CEO of The National Center for Social Entrepreneurs Jerr Bosch; Jed Emerson, senior fellow with Generation Foundation and a fellow of the Skoll Centre; James Austin, Snider Professor of Business Administration at the Harvard Business School; Geoff Mulgan, director of the Young Foundation; Rowena Young, director of the Skoll Centre and Gregory Dees, founding faculty director of the Center for the Advancement of Social



Entrepreneurship at Duke University's Fuqua School of Business.

Contributions were inspired by presentations and research papers at the first Skoll World Forum in Social Entrepreneurship, held at the Saïd Business School, University of Oxford, in March 2004, which represented the most comprehensive of scholars, practitioners, and policy makers to map out social entrepreneurship to date.

In his preface to the book, Jeff Skoll, founder of the Skoll Foundation, writes: "At the world's great foundations, universities and charitable institutions, social entrepreneurship has rapidly become the most influential idea of our time... This volume, synthesizing research and lessons from practice by leading social entrepreneurs and scholars in the field, exemplifies the Centre's aim to produce work that both engages with theory and is also valuable to practitioners in the field."

\* For further details on the book, see the advert on page 15.

# THE 2007 SKOLL WORLD FORUM ON SOCIAL ENTREPRENEURSHIP



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WORKING TOGETHER  
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## SPECIAL FOCUS: SOCIAL INNOVATION

The next Skoll World Forum will major on social innovation, asking how we overcome the social innovation gap, drive up downward accountability as we scale initiatives, and how social entrepreneurs can better align support for breakthrough models?

This year, we also:

- Run applied workshops where changemakers can probe the ways new ideas work in practice and how they apply to their own ventures
- Sustain a growing international debate about innovation in the supply of finance for social change
- Advance academic enquiry into the issues that will ensure social entrepreneurship is a force for good for the long term

The Skoll World Forum has rapidly established itself as the leading event in the social entrepreneurship calendar where individuals in the social sector, business and government can take a passionate and critical approach to resolving the planet's biggest challenges.

The Forum sells out early. So book the dates. Contact [skollcentre@sbs.ox.ac.uk](mailto:skollcentre@sbs.ox.ac.uk) if we don't have your details. And watch this space for further news through the Autumn.