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Has venture philanthropy entered the vocabulary of your organization? Is it just the latest fad or is it a new lens? What capacities do nonprofit organizations need in order to be equipped for this approach? Share your opinion with us and with your colleagues. Send e-mail to roundtable@wolfkeens.com, visit the Roundtable section of our web site at www.wolfkeens.com, or fax a response to 617.679.9700. We'll post your comments on our web site for you.

Venture Philanthropy

Evolving from Theory into Practice

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The last few years have seen many articles and studies on the subject of venture philanthropy – both from proponents and critics. The theory behind "VP" is that strategic long-term investments in a nonprofit, along with hands-on management assistance, will build its sustainable capacity to serve more people more effectively.

VP borrows its essential elements from "VC" (venture capital): multi-year investments, a *managing partner* relationship between the venture philanthropist and the nonprofit recipient, requirements for measurable results, the combination of cash and management expertise, and an *exit strategy* for the donor. A new report from the Morino Institute, *Venture Philanthropy 2001: The Changing Landscape,* catalogs almost 40 organizations nationwide that are actively applying this still-evolving venture philanthropy model to funding relationships with nonprofit organizations.

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VP groups struggle with issues that funders faced well before *venture philanthropy* entered the vocabulary: how to identify good organizations, make choices among potential recipients, define objectives, evaluate outcomes, and maintain their own staffing and operations at an appropriate level. In fact, at least one skeptic has observed that every generation of donors must reinterpret basic philanthropic principles so that they seem new and fresh and that venture philanthropy is not much different from the responsible philanthropy of an earlier era.

Venture philanthropists today, however, may also face a clash of expectations between their desire to do good and the capacity and desire of nonprofits to accept the kind of support VP offers. The Morino report notes that nonprofits are often "unprepared for absorbing the kinds of strategic management support that venture philanthropists are tying to their financial investments." Nonprofits may be loathe to cede a measure of control to donors whom they see as naïve to the true complexities of community problems.

At Wolf, Keens, & Company, we focus on how things are really working in organizations. So, in this working paper, Bob Templin of the Morino Institute and Venture Philanthropy Partners, Peter Hero of the Community Foundation Silicon Valley, and Aaron Lieberman of the nonprofit Jumpstart, Inc. offer insights from their own experiences on both sides of the venture philanthropy experiment.

Bob Templin

Senior Fellow, Morino Institute

Venture Philanthropy Partners (VPP) has engaged for more than a year in "landscaping" to identify nonprofits with strong leadership potential serving children from low-income families in the Washington, DC area. Annually, VPP will make high-engagement, significant long-term investments – accompanied by strategic management assistance – in a few organizations to increase their capacity, sustainability, and impact.

Nearly 100 trusted expert sources helped VPP identify and screen 225 organizations, resulting in 34 organizations targeted for detailed review. Only then did VPP contact organizations to explore the potential of a significant venture investment. A due diligence process lasting 3-6 months is planned for prospective investments.

During this process, VPP found that organizational cultures in nonprofits and the New Economy (the source of many venture philanthropy investors) are sometimes quite different – both have much to learn about each other:

- Speed of Action – New Economy entrepreneurs operating on "Internet time" use Internet tools to communicate instantaneously and quickly transform thought into action. Nonprofits may lack both the technology and the habits of speedy response the technology fosters.
- Pace of Change – In business, managers expect to see results quarterly. In nonprofits, impact may be measured in years.
- Understanding Outcomes – New Economy entrepreneurs seek fundamental, lasting change (lower school dropout rates, greater academic success). Nonprofits struggling daily with difficult social problems may describe outcomes as activities (number of children attending a program).
- The Idea of Scale – "Bringing organizations to scale," a primary goal of VPP, may not always mean just serving more people, but serving them more comprehensively, or more intensively. Not all nonprofits want to "scale." Some should want to continue to do what they are doing and do it well.
- Reputation vs. Reality – The most visible organizations and leaders are not always the ones with the best performance, management, current impact, and future leadership potential. To find good investment targets, venture philanthropists sometimes have to examine organizations off "the radar screen."
- Organizational Readiness – Only a few organizations are truly "investment grade" – with established leadership and management thinking transformationally rather than incrementally, and a business model in place or in development that addresses both scale and sustainability over the long term. Venture philanthropy may need a process of incubation to bring nonprofits into the venture investment pipeline.

Peter deCourcy Hero

President, Community Foundation Silicon Valley

Venture philanthropy (VP) has gained such currency that it sometimes appears to be the only rational form of charitable involvement. Is it the philanthropy for the 21st Century, or is it the latest new new thing in this new economy, the latest philanthropy *du jour* destined for history's charitable ash heap?

Here in Silicon Valley the jury is still out.

The significant benefits of VP – multi-year support, engagement of donors, unwavering focus on outcomes, and donors who share in the risk of the projects they fund (surely one of the most startling recent ideas in American philanthropy) – are well documented.

But there are problems. For example, the most important accomplishments of nonprofits are not easily bottom-line quantifiable. Often the outcomes that can be most easily measured are least important. Meanwhile the processes of nonprofits (consensus-building, opportunity for volunteer leadership, the creation of civic engagement) sustain the very fabric of civil society, but can be just an annoyance to ROI-obsessed donors. Also, where is the major "take-out investor," essential to execute VP's exit strategy in this era of shrinking government intervention? And some sectors – the arts may be one – elude VP thinking altogether.

I think that many new donors who currently embrace VP may evolve "back to the future" toward the more traditional American philanthropy of a century ago. Donors typically mature and gain more confidence – in themselves, and in the capacities and effectiveness of nonprofits. As they do so they may ultimately decide to pass along a share of their wealth not because they can wrap their giving with comfortingly familiar venture capital principles but simply because children are hungry, our rivers are fouled, and great art demands great patrons; in other words, to give because in so doing they are creating a stronger community.

Aaron Lieberman

President and CEO, Jumpstart, Inc.

As President and CEO of Jumpstart, a national education nonprofit that connects college students with low-income preschoolers for a year of intensive tutoring, I have seen the promise of venture philanthropy first hand. Nearly two years ago, Jumpstart was selected as one of four initial portfolio organizations of New Profit, Inc., one of the first venture philanthropy funders in the country.

New Profit's founding premise was simple: they would privately fundraise $4 million from high net worth individuals, and then they would select four organizations that had a proven model and were ready to grow to receive the funds (with roughly $1 million allocated for each organization). In addition, New Profit formed a strategic partnership with the Monitor Company, a leading management-consulting firm that would provide top-tier case teams to help each portfolio organization to design their growth plan and build a "balanced scorecard" to track progress against clear benchmarks.

Two years later, what sounded good in theory has proved to be great in fact. More important than the money or even the consulting services was New Profit's belief in Jumpstart's ability to grow exponentially, *not* incrementally. That approach alone, and all of the mental and moral support it provided, inspired us to dream bigger dreams. The Monitor/New Profit case teams have helped us make sure those dreams were rooted in reality. We spent a year developing and designing our growth plan, and a year executing it. Finally, the $1 million commitment helped other funders lift their sights and understand that we had the capacity to do more. Our relationship with New Profit will allow us to double the number of children we serve while maintaining the quality of our program.

We are excited about the promise of venture philanthropy as a part of the larger philanthropic sector. Before New Profit, no funder had ever approached us to explore what our needs were and what it would take to help us grow at such a deep and comprehensive level. Now, other venture philanthropy organizations and even traditional foundations are talking with us about supporting our plan. Some have even expressed interest in monitoring our progress in a coordinated effort with New Profit.