

## Nothing Ventured

In the wake of their widespread failures, venture philanthropists are taking a less dogmatic approach.

By Dalia Fahmy

**T**ECHNOLOGY ENTREPRENEUR turned philanthropist Mario Morino thought he could help poor children do better in school by applying a rigorous business approach to charity. So six years ago he founded Venture Philanthropy Partners, one of the country's first foundations intended to bring transparency and efficiency to the nonprofit sector by borrowing the tactics of venture capitalists.

Not everything went as planned.

Morino collected \$30 million in donations, but he soon realized that changing nonprofit strategies and improving student reading skills are more difficult than the tasks he was accustomed to assigning as a CEO. Some of the business strategies he tried to import, he admits, were misplaced, like bringing in pro bono consultants from McKinsey & Co. to work alongside his grantees. "It's intimidating for a social worker or an individual working with children—who has one mission in life—to all of a sudden have a Harvard MBA looking over his shoulder with a spreadsheet," he says.

First-rate consultants were merely one of the many new elements that venture philanthropists such as Morino introduced during the Internet boom of the 1990s, driven by the

belief that traditional charities were not using their resources intelligently enough. But ever since Christine Letts, a professor at Harvard, introduced the term in an article eight years ago, arguing that the entrepreneurs of the tech boom could show charitable funders how to help nonprofits build stronger organizations, venture philanthropy has mutated in many directions.

In the early days, dozens of foundations called themselves venture philanthropies to attract donations from technology entrepreneurs, but many shed the label after the burst of the dot-com bubble. Some who apply its principles today prefer to call themselves "high-engagement" grant makers, distancing themselves from the notoriety of venture capitalism while highlighting their emphasis on hands-on support.

Although venture philanthropy has slipped from the public eye—venture philanthropists made just \$50 million in grants in 2003, less than 0.2 percent of total foundation giving—their emphasis on transparency and accountability has changed how the giving sector operates. The movement remains strong within a core of about 50 organizations, such as Venture Philanthropy Partners, that stick to its

doctrines; hundreds of others apply its principles to varying degrees.

As the sector matures, however, practitioners continue to wrangle over some of its basic tenets, such as how much control foundations should wield over their grantees or how strictly results should be measured. The only point everyone agrees on is that venture philanthropy comprises many definitions and remains a work in progress. Morino, for example, had to adjust his own strategies. When he realized that white-shoe management consultants were not right for the job, he replaced them with board members who had experience in public schools, local government and nonprofit organizations. In the two years since, he has learned more about helping school children than he ever thought he would. These were people, he says, "who had been where I needed to go."

### ENGAGING THE AMITY

This newfound humility represents a marked shift from venture philanthropy's beginnings, when its proponents all but declared war on the philanthropic establishment. Amy Lesnick, executive director of the San Francisco-based Full Circle Fund, explains that early practitioners failed to recognize the efforts of funders who had been in the trenches for years. Some venture philanthropists even dismissed accomplished social workers if they could not read a balance sheet.

It also took venture philanthropists time to realize that many charities did not need sophisticated strategies

**TOP VIEW** | Since the term "venture philanthropist" was coined during the dot-com craze eight years ago, this part of the charitable world has experienced boom, bust and rebirth. Today's surviving venture philanthropists find themselves moving away from some of this school's distinctive trends and embracing more traditional styles of grant making.

more than they needed funds. "It's good for a philanthropist who has the skills to be ready to engage when it's helpful," says Paul Brest, president of the William and Flora Hewlett Foundation. The foundation is the nation's seventh largest with \$6.5 billion in assets, and it underscores the importance of measurable results and operational support. But Brest warns that some venture philanthropists are more like retirees looking for ways to keep busy. "If there are times when organizations don't need your help and the best thing you can do is invest in them," he suggests, "then don't be engaged."

The question of involvement—how much power should charitable donors have?—is not just a practical consideration, but an ethical one that continues to dog venture philanthropy. Critics say even the new generation of engaged grant makers too willingly crosses the line. "One description of that is high-engagement; the other description is intrusiveness," says Bruce Sievers, former executive director of the Walter and Elise Haas Foundation (not a venture philanthropy) and visiting scholar at Stanford University. He points out that many nonprofit organizations welcome the expertise that venture philanthropies offer, until helpfulness turns into pushiness. "There's a huge amount of deference in the nonprofit world to moneyed resources. So a single grant maker sitting at the table can have inordinate influence over the organization."

Grantees have always been reluctant to criticize their funders. Paradoxically, this deference only increases when their benefactors suddenly start peering over their shoulders. But the venture philanthropists who have survived to this day claim that high-engagement does not equate to meddling. "We're not

there to say, 'Here's how to run your programs.' We're not saying, 'Here's how to run your mission,'" says Paul Shoemaker, a former Microsoft executive and director of Social Venture Partners (SVP). "We're here to look at your technology, your infrastructure, your marketing. We're looking at your branding."

To its credit, SVP's plan is working: Its national network comprises one of the fastest-growing philanthropies in the country. One reason for the success of SVP's model is that it seems to have figured out when to pull out the spreadsheets and when to stay out of the way. Roxanne Hood Lyons, the founder of a children's after-school program, New Futures, set in a poor Seattle suburb, says Shoemaker came to the rescue when she was receiving so many different grants from various funders that she could not manage her accounting. Shoemaker recruited chief financial officers and software programmers who helped Hood Lyons build a customized accounting system. He also helped her persuade a stubborn landlord to upgrade the organization's counseling space. Since then, New Futures has more than tripled its reach and attracted larger

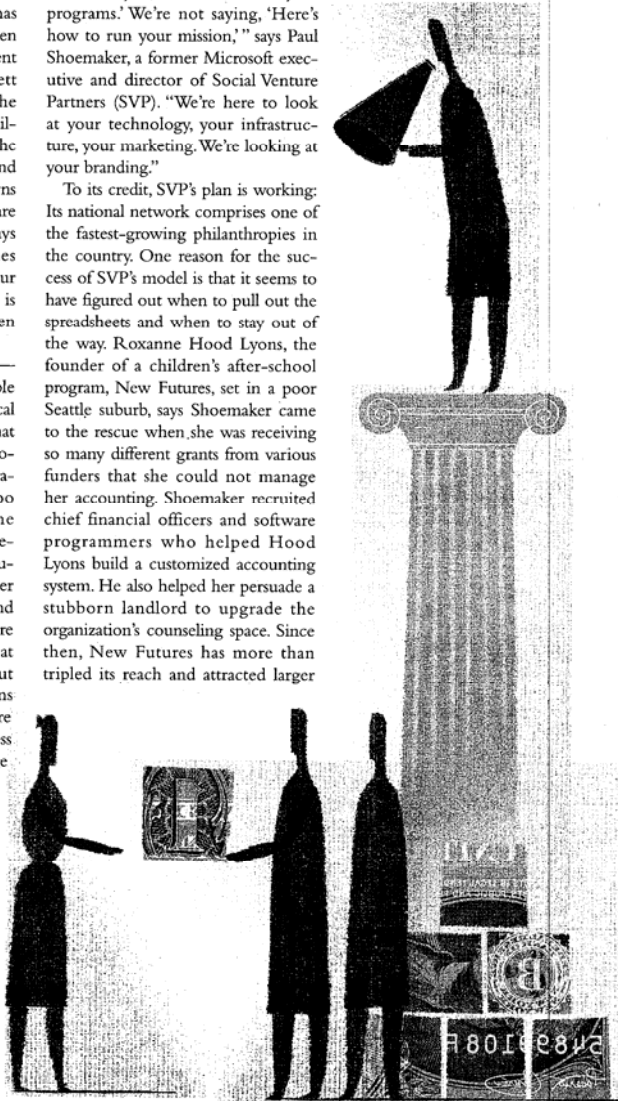


PHOTO: GETTY IMAGES

funders. Throughout the process, says Hood Lyons, SVP never interfered with her programs.

Some organizations, including SVP, now try to balance their relationship with grantees by not taking board seats at the nonprofits they support. But others continue to sit on these boards. Kim Syman, a partner at New Profit in Boston, says taking board seats helps make both parties more accountable to each other and is often a more honest strategy than pretending that grant makers do not exert influence over grantees. The NewSchools Venture Fund in San Francisco started joining its nonprofit boards after some grantees made decisions that it did not agree with.

#### UNHAPPY RETURNS

Meanwhile, critics of venture philanthropy are speaking out about what they see as inequities inherent in the model. They argue that it is impossible to quantify so-called social returns when the outcomes—psychological relief for battered mothers, for example—are intangible. By overemphasizing numbers, opponents add, grant makers tend to support causes that can be easily measured, such as pregnancy prevention programs. This trend also encourages nonprofits to skew the results by “teaching to the test.”

Some venture philanthropists are now taking the concept of social returns even further by attaching themselves to nonprofit organizations that can “go to scale”—or have the potential to expand and serve more communities. The NewSchools Venture Fund, cofounded by private equity partners John Doerr and Brook Byers and entrepreneur Kim Smith, for example, explicitly funds fledgling charter schools with models that can easily be replicated around the country.

Lee Davis, cofounder of the Nonprofit Enterprise and Self-sustainability Team (NESST), is one of venture philanthropy's most vocal critics of this emphasis on growth. “A lot of effective

nonprofits can be destroyed by trying to scale them,” he says, arguing that only a fraction of charities would benefit from significant expansion. NESST, for example, supports a woodworking shop in the Czech Republic that employs recovering teenage drug addicts who would not otherwise be able to find jobs. “If they scale that business too quickly and too much, then they lose a lot of the personal attention and touch.”

Forcing a nonprofit to grow beyond its means becomes a problem, particu-

day, according to nonprofit association Independent Sector.

Venture philanthropists have only recently come to grips with the reality that in this environment charities can never truly sustain themselves. Recently, a new generation of philanthropists has started exploring ways to secure long-term funding for successful nonprofits. Like venture philanthropists who sought to inject promising projects with seed capital 10 years ago, these new funders want to support more mature organiza-



**“IF THERE ARE TIMES when organizations don't need your help and the best thing you can do is invest in them, then don't be engaged.”**

larly when the funding organization ends its support, which in the case of venture philanthropies is usually after three to five years. When the movement began, one of its first intents was to develop exit strategies that would leave nonprofits able to sustain themselves, either through more efficient fund-raising or commercial projects that would generate income. But eight years later, venture philanthropists admit they have not made much progress. “It's something we've all been thinking about, but something that we just aren't solving,” says Laura Arrillaga, a lecturer at Stanford University who cofounded the Silicon Valley Social Venture Fund. “We need to create a more formalized structure for the social capital market.”

The need for alternative sources of funding has become more acute in the past decade. Americans might be generous donors, giving \$241 billion to charity in 2003—20 percent more than five years earlier, reports the American Association of Fundraising Councils. But during that same period, the number of nonprofits—there are now about 1 million registered with the IRS—jumped by about 40 percent, and the number is growing at a pace of 100 per-

cent—those with clear operating plans, that know exactly how much money they will need over several years.

The aim is to raise large pools of syndicated grants from multiple donors, much in the same way corporate borrowers raise capital. Instead of making \$100,000 donations, these collectives donate \$10 million or more at a time. This concept is still early in its development, and it remains to be seen whether disparate grant makers—who tend to follow their own agendas and rarely work together—can come to terms. But venture philanthropists are hopeful. “Part of our role as funders is that once we help organizations get to the next stage, we should help them secure the funding they need,” Arrillaga says.

After nearly a decade in the trenches, venture philanthropists agree that a lack of funds is the biggest obstacle ahead for the nonprofits they support. As they try to find a solution for a problem that has dogged generations of philanthropists before them, they are realizing that they have more in common with the establishment than they thought. ■

*Dalia Fahmy is a journalist who specializes in business, travel and Middle East affairs.*