Morino Institute

Venture Philanthropy

LANDSCAPE AND EXPECTATIONS

Produced for the Morino Institute Youth Social Ventures
by Community Wealth Ventures, Inc.

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Introduction

A sea change in philanthropic giving, an unprecedented creation of wealth in the New Economy, and an Internet-enabled transformation in organizational effectiveness are converging to create an extraordinary opportunity to work in new and different ways to meet society's most vexing and long-standing social problems. The convergence of these forces has set the stage for a fundamentally different approach to philanthropy, one that learns from the past while drawing upon the best practices found in firms in today's New Economy: venture philanthropy.

In response to this opportunity, the Morino Institute is leading an effort to establish a new philanthropic fund to improve services to youth living in low-income areas in the greater Washington region. This social venture fund will differentiate its approach from traditional philanthropy by applying investment management practices characteristic of high-end venture capital and private equity investment firms. The Institute is working with a core set of business and community leaders and augmenting its efforts by partnering with Community Wealth Ventures and the Community Foundation of the National Capital Region.

As part of this effort, the Morino Institute engaged Community Wealth Ventures to explore the social venture fund landscape around the country and to determine how venture capital practices can be applied to organizations and activities that seek to achieve social change. It wanted to learn how social entrepreneurs are introducing to philanthropy the same expectations that they brought to their successful business ventures and creating a more effective philanthropic model. The results of this research are contained in the report that follows.

In addition to the research, the Morino Institute and Community Wealth Ventures have also

- Reviewed a rapidly expanding body of literature that analyzes nonprofit capital markets, scans new developments in innovative and strategic philanthropy, and compares new philanthropic strategies to venture capital techniques; and
- Conducted extensive interviews with prospective investors, members of the philanthropic community, potential recipients of investments, and business leaders to test the viability and acceptance of the proposed fund.

The research and interviews have shown that:

- Current methods of funding and supporting nonprofits can be improved. Nonprofit organizations exist in a culture of dysfunction—limited capacity and modest outcomes pervade critical organizational elements such as strategic planning, staffing, training, management, financing and performance measurement. This dysfunction makes success highly improbable and calls into question the sustainability of organizations unable to adequately capitalize future growth.
- While many nonprofits have succeeded in developing solutions to many of the problems facing youth in low-income communities, their efforts have not been broadly disseminated, adopted or brought to scale. What is needed are not new solutions to social problems but new ways to fund and support successful nonprofits so they can grow and build on their success.
- New Economy entrepreneurs have different expectations for philanthropic involvement than those active in previous generations. They want their investments in nonprofit organizations to have a broad impact, and they want to be able to measure that impact.
- A social venture fund that applies venture capital practices to funding youth-serving organizations offers a promising way to tap the resources of New Economy entrepreneurs and other business people so as to increase the effectiveness of the nonprofits it funds.

- Venture philanthropy and social venture funding means different things to different people. But at its core, venture philanthropy seeks to obtain greater return from nonprofit organizations, whether social, financial, or both.

This report describes the venture philanthropy landscape today and the Morino Institute's view of the opportunities and obstacles that lie ahead. It draws on the experience and expertise of leaders as diverse as Jim Kimsey, the co-founder of America Online; Bill Drayton, the MacArthur Foundation prize-winning founder of Ashoka; Lisbeth Schorr, author and director of Harvard University's Center on Effective Interventions; and more than 50 others,

The report is divided into two parts. The first part provides an overview of the challenges facing nonprofits and makes the case for venture philanthropy as an alternative to traditional philanthropic models. The second part presents findings from research on people and organizations throughout the country who are engaging in venture philanthropy and what their particular approaches and experiences have been.

I. Commentary on Venture Philanthropy

A. State of Nonprofit Organizations Today

The last two decades have witnessed a proliferation of community-based nonprofit organizations created to serve vital human needs. They are staffed by a special breed of public-minded citizens who have put their own careers and reputations on the line to solve the sometimes unpopular and even seemingly intractable problems that face society. They've done so with compassion and courage, and often without resources or reward. But like the sailboats that grace the Chesapeake Bay on a summer weekend, they know where they want to go but have no engine to take them there. They tack to catch the changing philanthropic winds as best they can, which leads to erratic course corrections, first sailing in one direction, then another. The more astute among them are better at anticipating when the wind will change and positioning themselves to take advantage, but they're no less dependent on it than the beginners. Is it any wonder nonprofits constantly change course, fall behind schedule, or collapse from exhaustion before the job is done? Few are ready for the bigger challenge of the open sea any time soon.

Unfortunately, this is not all they have in common. Though their missions could not be more diverse, the waters nonprofits share are not sufficiently calm or inviting, and the boats themselves not sufficiently seaworthy to make for smooth sailing. In fact, nonprofit organizations exist in a culture of dysfunction. The dysfunction so pervades through a range of critical elements—strategic planning, staffing, training, management, financing, and performance measurement—that success becomes highly improbable. Here is why:

- Many nonprofits struggle with insufficient resources to provide essential human services that were once the role of government. Their work, which once supplemented government efforts, has now in many cases taken the place of government. In fact, they've become their community's principal service provider for many human needs. However, resources have not increased in proportion to their increased responsibility. Though the cornerstone of support for many nonprofits is government funding, the rate at which government funding increased between 1992 and 1996 was only 2.9%, compared to 8.4% between 1987 and 1992.[1]
- Nonprofits are chronically undercapitalized. For the most part they find themselves limited to just one financial instrument—the charitable donation—and most of what they do is financed on a pay-as-you-go basis. This is in direct contrast to the way virtually everything else of value gets built. No one buys or builds a home without financing it. Almost every business, large and small, at least attempts to make judicious use of debt and equity. But nonprofits are risk-averse and often unaware of the broader range of financial tools that may be available. Debt and equity financing has not been easily available to early stage businesses. But in the same way that this financing is being cultivated to fund early stage start-ups, so should there be more options open for debt and equity-like financing to support innovative nonprofits. Because nonprofits are chronically undercapitalized, they rarely achieve their objectives, which in turn makes it less likely they will receive the resources they need. And so the cycle continues. .
- Nonprofits have been compassionate and committed service providers but inattentive institution builders, focusing most of their energies and resources externally rather than building and supporting their own capacity. Nonprofit organizations often ignore the value added by superior management, usually preferring to be managed by organizational founders rather than experienced managers. They almost always neglect systems of recruitment, training and personnel advancement, generally recognized standards of quality and measurements of productivity. In addition to lacking the resources for capacity building, they also often lack the skills to do so; such skills are very different than those required to conceive and create a new organization or to implement the services which it is the organization's mission to provide.

According to Chris Letts, Allen Grossman and William Ryan, co-authors of *High Performance Nonprofit Organizations,*

1 Roberts Foundation. San Francisco: 1998.

In the for-profit sector, organizational capacity is valued as the primary means for succeeding in the marketplace. Investors, corporate boards, CEOs and managers all understand that success comes not from a product or service alone, but from organizations' ability to market, distribute and improve it. Business schools, consulting firms and an expanding body of research all reinforce the value of organizational capacity and encourage leaders to take it seriously. The relationship between programs and organizational capacity is strikingly different in the nonprofit sector. The two are considered almost as competitors in a zero-sum struggle for limited resources. Money invested in organizations is considered lost to direct service. While for-profit managers are awash in training, research and education, and boards and investors encourage them to take organizational capacity seriously, nonprofit managers are expected to get heroic results out of their organizations with few of these supports.

- Nonprofits concentrate on redistributing wealth, rather than creating new wealth, and so they end up fighting for their share of the charitable pie, but not making it grow. Given the scale of the problems they seek to address, charity alone will not be enough. It will take creating new wealth that we call *community wealth*. This requires a deeper understanding of an organization's assets and how those assets can be more fully leveraged to generate revenues. Most nonprofit organizations are worth more than they think they are and have assets that can be deployed to begin profitable ventures, create cause-related marketing partnerships, or position them for licensing and merchandising deals.

This organizational disposition creates a cycle where nonprofits are resource constrained, talent poor and frustrated in their growth and development. Those who work in nonprofit organizations, and have sacrificed and dedicated their careers to helping others, deserve better.

B. The Challenge For Funders

Nothing undermines a prescribed course of action more profoundly than a flawed diagnosis. Because of the persistence of poverty, gang violence and lack of economic opportunity, which affect many young people in low-income communities today, many people think, and many grant makers act as if, nonprofit organizations are incapable of generating and implementing solutions to these and other social problems.

The rich experience of many innovative organizations suggests that just the opposite is the case. Individuals and organizations see, and often fund, solutions that are having the impact they are supposed to have. The Rheedlen Center in Harlem integrates critical services for at-risk youth in Harlem, offering teaching, training, nutrition and mentoring services that have demonstrably transformed the lives of countless boys and girls. Mary's Center in Washington, DC, has reversed infant mortality statistics and poor maternal and child health statistics for thousands of families and has enabled their children to enter school healthy and ready to learn. City Year, Youth Build, Jumpstart and other organizations have track records of effectiveness and broad support that cross political and ideological lines. What they do works. And almost every community in the country has examples of such solutions.

The challenge is not just to create solutions. The challenge is to figure out how to make those solutions affordable, sustainable, replicable and figure out how to get them to a scale that fulfills their organization's mission. This challenge requires new strategies and new tools.

Important philanthropic leaders have begun to reach this conclusion. Michael Bailin, president of the Edna McConnell Clark Foundation in New York, recently announced a significant re-evaluation of their work:

> To complete our mission, it is no longer sufficient, if it ever was, to restrict ourselves to devising new strategies, confident that the public sector will adopt and replicate the ones that work best. Though government participation is usually essential for funding the largest-scale undertakings, governments aren't always the best judges of new methods or emerging technologies. Nor can governments always replicate the

> most promising or effective innovations. Increasingly (and often excessively), governments are looking to the corporate and philanthropic sector to tackle major social problems, rather than the other way around.
>
> More generally, the science of how to replicate effective new ventures isn't well or widely understood. Even given enough will and funding—scarce commodities in themselves—the business discipline and technical know-how of effective replication are often lacking in both government and nonprofit circles. The last few years have made it abundantly clear to us that developing and disseminating such skills needs to be part of our programs and maybe part of any foundation program aimed at strengthening public and nonprofit institutions.

Bailin's insightful, honest comments reflect a major departure from the trajectory of traditional philanthropy and signal an emerging way of thinking about the purpose and role of philanthropy in the future.

C. A New Solution

It is ironic that in a time of unprecedented prosperity and newly created wealth, there is still chronic poverty and significant income inequality in the United States. The already large gap between rich and poor has widened even more dramatically. The Center on Budget and Policy Priorities reported recently that in 1999 the wealthiest 1% of the population is projected to receive as much after-tax income as the bottom 38% combined—that is, the 2.7 million Americans with the largest incomes are expected to receive as much as the 100 million Americans with the lowest incomes. With a five-digit Dow and the economy in its ninth straight year of growth, it is sobering that more than one child in five lives below the poverty line,[2] more than 10 million American children do not have health insurance,[3] and the United States' infant mortality rate ranks 18th among industrial nations.[4]

Venture philanthropy can be an effective way to harness the new wealth and new skills of today to address social problems. When philanthropic giving merely supplemented massive government spending and was limited to a handful of large donors, few recognized the need for such giving to be strategic. Accordingly, the need to measure outcomes and to tie future giving to those outcomes was less. The result was a philanthropic marketplace only marginally responsive when it came to rewarding success and penalizing failure. As philanthropically supported organizations move into a more central role as principal service providers, the need to be strategic becomes imperative and brings with it a need for focus on outcomes, the development of new metrics to measure performance and success, and the creation of a philanthropic structure that responds more sensitively to market forces.

Foundations

In the past, the division of labor in the social field was between foundations and the government, with foundations originally being conceived of as the "research and development arms of society."[5] In the 1960s, for example, foundations funded and supported nonprofit pilot programs dealing with social causes, and the very successful programs would then be taken to scale by the federal government. In many cases, the vision and commitment of foundations have had far-reaching effects. For example, the Ford Foundation's early support of LISC (Local Initiatives Support Corporation) was not only a catalyst to the organization's growth, but profoundly affected the way the federal government thought about its community development initiatives.

However, since the 1980s, the government has increasingly retreated from this area, and the research and development efforts by foundations have been left unsupported. This change has meant that successful solutions are less often winnowed from unsuccessful attempts and taken to scale. Without this crucial element of social intervention, foundation R&D efforts are often viewed as transient and inefficient, their relevance

2 US Department of Commerce, Bureau of Census, 1994.
3 Children's Defense Fund, 1997.
4 Children's Defense Fund, 1997.
5 Former Ford Foundation President Franklin Thomas, quoted in Letts, Christine W., William P. Ryan, with Allen Grossman, "Virtuous Capital: What Foundations

compromised. If a successful program cannot be found or brought to scale, what point is there in trying to develop new and innovative approaches to social needs?

Nonprofits are beginning to work on a variety of approaches to achieve scale with respect to an organization's mission. Some focus on community wealth building, where for-profit enterprises are enlisted to support social causes. Others are reworking programs so they are expandable, replicable, and sustainable over time. All of these solutions share one thing—the problem of *capacity*. Program delivery technology, training, human resource management, and community wealth creation are all aspects of organizational capacity building, and so are not directly related to program delivery. Operating in their R&D role, most foundations essentially fund programs or projects. Those visionary foundations that fund organizational capacity building are thus the exception and not the rule, and as a result, too few nonprofits are allowed to develop beyond the needs of the next funding cycle.

Funding Capacity Building

Many existing social venture funds reflect a greater recognition of the need for fortifying capacity—the strength of the organization itself to develop, improve and expand programs and services. Yet, no consensus exists as to how capacity is best developed and to what degree funding will be dedicated to building capacity. Some organizations provide unrestricted funding and allow investees to identify needs. Others, such as the Center for Venture Philanthropy and Social Venture Partners, Seattle, work closely with grantees to identify needs and target funding in appropriate directions.

Capacity involves everything that makes an organization more than the sum of the products and services it offers. Capacity allows an organization to see how effective it is at executing its mission, how market needs are changing, and where it could improve its processes. Beyond measuring outcomes, capacity allows an organization to analyze its programs in terms of effectiveness, efficiency, cost, timeliness and client satisfaction, all against the backdrop of a dynamically changing environment. Capacity thus enables an organization to continue developing new programs to match the changing needs of its clients. Capacity also allows an organization to know which programs it should drop, either because they are not effective or because someone else can do them better. In sum, capacity enables an organization to become high performing.

Nonprofits have traditionally focused their resources on operational service delivery rather than capacity. The for-profit analog would be an organization trying to stay competitive solely through cost cutting. Although this trend took place in the 1980s, for-profits now understand that strong organizations with well-developed infrastructures will ultimately be more successful, effective, and profitable than their anorexic competitors. The market has rewarded this capacity building, but the nonprofit funding market has yet to sufficiently recognize the importance of this activity. Most foundations often tend to see what we believe are necessary capacity-building efforts as unnecessary overhead. As Letts, Grossman and Ryan point out, "Foundations and venture capitalists face similar challenges: selecting the most worthy recipients of funding, relying on young organizations to implement ideas, and being accountable to the third party whose funds they are investing."[6]

Capacity will enable an organization to do more with the same, or fewer, resources, but not necessarily through efficiency. Capacity enables an organization to become more than the sum of its programs (or services) by giving it the intelligence and support it needs to modify existing programs, meet unmet needs and drop ineffective products and services. Increasing operational delivery simply allows an organization to have more programs or bigger programs, but it would not allow it to have *better* (perhaps even fewer) programs. Capacity allows an organization to develop and define "better."

There is thus an increasing amount of interest in the philanthropic community to study the practices of venture capital investing and develop new strategies towards social problems. This will be one of the areas of particular focus for the Morino Institute's proposed youth social venture fund described in the Introduction.

6 Letts, Ryan and Grossman, "Virtuous Capital."

Private Sector Donors

Interest in capacity building on the foundation side is matched by interest from private sector donors. A new generation of philanthropists who have generated wealth in the New Economy by using technology are searching for new and better ways to invest in social causes. These philanthropists often started their businesses with venture capital money and are familiar with both the techniques and examples of the success that this approach can have. For-profit companies rely on a continuum of investment and support that starts with the three F's—friends, fools and family—then proceeds to angel investors, grows to venture capitalists and ends in investment firms. In the beginning, the interest in return on investment is less focused on financial aspects, while at the end, with venture capital investments, it is almost entirely so. And with different investment goals come different behaviors. An approach to philanthropy that draws on the best lessons from this continuum, especially the venture capital field, and focuses on real success, sustainability and, ultimately, scale is a more practically effective and ideologically cohesive way to tap the social wealth of the New Economy. (Section II below provides further details on this continuum.)

These new private sector donors are also expert in new technologies and the Internet, the backbone of the New Economy which promises to alter the nonprofit landscape as radically as it has the corporate landscape. The nonprofit sector will use the Internet to build its capacity and transform its operations in ways that will restructure its approach and increase its effectiveness. Early examples include America Online's creation of a philanthropic Internet portal; the comprehensive financial disclosure for nonprofits available through Guidestar; Impact Online's success in attracting new volunteers, mentors and others; and the work of the National Center for Missing and Exploited Children.

To fully leverage this new technology and its opportunities, nonprofits will need access to skills and expertise, which a venture capital approach will supply by connecting these organizations with New Economy entrepreneurs. Perhaps more valuable than the wealth Internet entrepreneurs can bring to the nonprofit realm are the skills and expertise they offer.

These assets are important, because too many foundations often see getting involved with their grantees as intrusive. As the executive director of the Walter and Elise Haas Fund puts it, "It is necessary that nonprofits' independence be preserved even against the good intentions of friendly sources of support."[7] However, without the expertise required in building institutions, growing capacity, managing growth and integrating technology, nonprofits will not be able to generate the change they were created to make. Foundations thus are not the likely resource for the skills and tools to build capacity.

On the independent sector side, the retrenchment of government from the social sector, the limitations and focus of foundation funding and the difficulty of nonprofits to grow to scale all point to the need for a new model of philanthropic giving. On the private sector side, the growth in New Economy wealth, the advent of the Internet and the desire of philanthropists to invest in more strategic ways suggest a solution to this need: venture philanthropy and the creation of a social venture fund to support the new model of nonprofit work.

D. The Social Venture Fund Landscape

The venture philanthropy field, in parallel with the entire New Economy, is booming. During the last eight months alone, three funds have been launched, such as Social Venture Partners Arizona, Entrepreneurs Partnership of the Triangle Community Foundation and the Silicon Valley Social Venture Fund. But what exactly is a "social venture fund?" To date, no consensus on the definition exists, and no organization has succeeded in stamping its imprint on the term. Some use it to describe dollars that support social entrepreneurs, others to invest in mezzanine financing, and still others to make "adventurous" grants to start nonprofit organizations.

7 Sievers, Bruce, "If Pigs Had Wings," Foundation News & Commentary, November/December 1997.

Is a fund a social venture fund because it is amassed through the contributions of venture capitalists? Or because it is disbursed along the lines of venture capital philosophy? The multitude of definitions encountered during Community Wealth Ventures' six-month survey of the field for the Morino Institute points to uncertainty among organizations about how venture capital practices relate to philanthropy.

During this search, we defined a social venture fund as follows: a multi-donor fund specifically created to address social issues that utilizes venture capital practices to maximize investor value and impact. Letts, Ryan, and Grossman, in their seminal *Harvard Business Review* article, identify six points that distinguish venture capital practices in philanthropy from those in more traditional philanthropy.

1. Risk
   - VC firms take risk and are rewarded accordingly. Rather than being avoided, risk is managed.
   - Foundations avoid risk because they are not rewarded one way or the other for taking risk. Accordingly, foundations compromise the likelihood of measurable return.
2. Performance Measures
   - VC firms focus on performance measures that will lead to long-term growth.
   - Foundations focus on short-term program outcomes and avoid the question of long-term consequences.
3. Closeness of Relationship
   - VC firms are comfortable with close working relationships with investees. They are involved in deal flow, CEO selection, strategic planning, etc.
   - Foundations tend to keep their distance in their relationship with grantees. In addition, they tend to be totally uninvolved in operations.
4. Amount of Funding
   - VC firms fund few deals but they put enough money in chosen deals to make a difference. They will also help with subsequent funding needs.
   - Foundations fund a small part of each deal. They tend to undercapitalize and seldom help with subsequent funding needs.
5. Length of Relationship
   - VC firms will stay involved over a number of years, and this is known to all participants.
   - Foundations seldom stay involved for more than two or three years.
6. Exit Strategy
   - VC firms have an exit strategy identified at the point of entry. Often the exit is made possible by another VC firm.
   - Foundations rarely have an exit strategy.

With that definition in mind, we discovered a venture philanthropy field that resembles the "Wild West." Individuals, organizations and foundations are experimenting with a variety of techniques to maximize investment. As described in Table 1 in Section II, the most active participants in the field are entrepreneurs and foundations that are either launching venture funds or are implementing elements of the venture capital model, such as long-term investment. Most independent social venture funds are multi-donor in nature and involve individual investments, in contrast, for example, to the Entrepreneurs Foundation strategy of pooling corporate investments.[8]

8 We did not find a single fund focused exclusively on youth development, the proposed focus of the Morino Institute's social venture fund. Numerous foundations make program grants in this field. Of the funds that we looked at, the ones that came closest to supporting youth development were making investments to support education and improve schools.

Just as there is no consensus on how to define venture philanthropy, there is no agreement on how to apply venture capital mechanisms to philanthropy. Even pioneer organizations such as Social Venture Partners, Seattle, are still "feeling out" procedures.

Letts et al. identify several common venture capital techniques that philanthropies might use to maximize investment value, including long-term investment, funding for capacity building, the establishment of evaluation metrics and strong criteria for investment. They hoped to encourage philanthropic organizations to have a sense that they have a stake in their investments. Plainly put, if the investor has serious expectations about achieving measurable outcomes, be they social or economic, their commitment will be heightened. Investors will be strategic in their commitment of capital and human resources; their investment time frame will be appropriate; their assessment of management achievements will be objective; and, most importantly, they will involve themselves when necessary so that success might be attained.

Letts et al.'s article offers a thoughtfully written, well-argued and supported case for what venture philanthropy could mean. With the exception of the Roberts Enterprise Development Fund, and the Entrepreneurs Foundation and perhaps the New Hampshire Charitable Foundation, still no organization has completely or comprehensively modeled its operating philosophy after the "Virtuous Capital" article. Letts et al.'s arguments remain important because they were not advocating a venture capital approach just for the sake of it, or because venture dollars, when successful, are leveraged into huge profits. Rather, they see venture capital approaches as responding to a diagnosis of why nonprofit institutions so rarely get to scale and are rarely sustainable.

The design and operating philosophy of the proposed social venture fund should relate directly to the problem to be solved. In a word, the proposed fund should be *focused.* The expectations of investors should be clearly articulated and objectively stated. The strategic and continued involvement of the investors should be a prerequisite. While some organizations, such as the Entrepreneurs Foundation and the New Hampshire Charitable Foundation, are using Letts's article as a model for their operating philosophies, most are only taking bits and pieces of the venture capital model. Here are some examples of approaches being used:

- *Hands-on involvement.* Part of the venture capital model involves a hands-on approach to investment. Some venture funds, such as New Profit Inc., plan to actually take seats on boards of investee organizations. However, most foundations and funding bodies are leery of intrusive involvement and are developing a myriad of techniques to assist them. Some assign donor partners to organizations who provide strategic assistance. Others, such as New Schools Venture Fund, provide a powerful network of volunteers upon which investees can draw for help.
- *Establishing criteria for investment.* Although most funders have overlapping conceptions of what a "good proposal" looks like, including entrepreneurial staff with a track record, funding bodies radically vary in how they choose to invest. The 21st Century Educational Initiative employs a rigorous scorecard to determine whether proposals receive approval, while the Entrepreneurs Partnership allows investors to determine investment criteria.

The spectrum of activity points to the fact that there is no prescribed formula to building a social venture fund. Existing funds are establishing different means for investment, and each is creating different mechanisms for involvement and establishing varying lengths of investment.

Success Stories

While no uniform method exists to merge philanthropy and venture capital practices, several organizations are generally considered to be ahead of the field, including Roberts Enterprise Development Fund, Social Venture Partners, Entrepreneurs Foundation and New Schools Venture Fund. Paul Brainerd's Social Venture Partners model appears especially attractive to the New Economy generation. Brainerd has created a network of young professionals and technology leaders who invest $5,000 for two years and provide a variety of hands-on assistance to grantees. The model has been replicated in three different cities, Austin and Phoenix to name two, and has been studied by entrepreneurs in several more. Many other foundations and organizations are either implementing venture funds or implementing programs to help build the capacity of organizations. Groups such as the Denali Initiative, which trains nonprofit managers, are developing human capacity in organizations, while organizations like Faithworks and the Robin Hood Foundation are helping leverage professional talent to improve service delivery. We have included the spectrum of organizations in this report.

It seems that one characteristic of new social venture funds that have been successful in attracting broader support is a founder with "reach" and venture capital experience. John Doerr started the New Schools Venture Fund and Gib Myers created the Entrepreneurs Foundation. They had the credibility, contacts and initial capital to put the pieces together. In contrast, other funds have great ideas but fail to secure contacts and, consequently, funding.

Promising new funds also have a well-established strategy for human involvement and a strong sense of accountability metrics. To ensure the success of its investees, New Schools Venture Fund provides entrepreneurs with a board member who has relevant experience, in addition to a powerful network of other entrepreneurs and New Economy resources. Similarly, the 21st Century Educational Initiative provides "critical friends" to investees. These friends, who in the past have included the president of Hewlett Packard, troubleshoot and strategize with investees.

Many of these same funding bodies are beginning to employ business plans to designate metrics and identify needs of fund recipients. The Center for Venture Philanthropy co-authors a three- to five-year business plan with investees that includes accountability metrics and ideas for cooperation. Social Venture Partners' Business Tool plan presents a series of questions to investees to help them identify needs.

Who's Involved

The pioneers of venture philanthropy come from a new generation of entrepreneurs who, generally, have never been part of the foundation community. Many of the field's leaders are familiar with venture capital techniques either directly or through technology ventures that succeeded through venture funding, and they are eager to invest philanthropically in a manner that has a successful track record. The Triangle Community Foundation, in fact, conducted market research on how to maximize philanthropy in the Research Triangle area and identified venture philanthropy as one of the most attractive giving models for young entrepreneurs.

Traditional foundations are either playing catch-up to individual entrepreneurs, such as Gib Myers and Paul Brainerd, or are serving support roles.[9] Foundations have already missed the riskiest stage of the game and will likely continue to favor safe investments like "convening" and supporting the bigger name entrepreneurs. That said, some members of the foundation world are getting involved quite aggressively. The New Hampshire Charitable Foundation, for example, will launch its own venture fund that will provide long-term funding and organizational assistance to grantees. In addition, other foundations have pioneered various aspects of venture philanthropy. The Robin Hood Foundation, for example, has forged long-term relationships with grant recipients since its inception 11 years ago, and provides a network of high-level volunteers to assist grantees strategically. Several other foundations informally provide capacity-building grants and are looking to collaborate with other foundations to fortify grantees' capacity; these include the Kellogg, Packard, Mott, and Pew foundations. Even the Ford Foundation is now speaking in terms of infrastructure development, according to Tom Reis of the W.K. Kellogg Foundation.

Most social venture funds today are anchored on the West Coast, near or in the cradle of technology meccas like Silicon Valley and Seattle. In these areas, cross-pollination among technology leaders and nonprofit

9 Several community foundations, for example, serve as umbrellas for local venture funds, until the fund can gain independent status. Examples include Social Venture Partners of Arizona and Austin Social Venture Partners.

organizations has been most vigorous. In turn, the funds target regional and, in some cases, municipal needs. Entrepreneurs Foundation focuses upon the San Francisco Bay area, while Social Venture Partners, Seattle, addresses educational and youth concerns in the Northwest. There is no venture fund to date to address youth development concerns in the Mid-Atlantic region.

E. Critique of Venture Philanthropy

Venture philanthropy is a very new field and, as such, is criticized by skeptics as being a nice idea but unworkable, impractical, a fad and no different from what already exists. The foundation world has specifically attacked some of its central assumptions. It does not help that one small venture philanthropic fund, the Pfizer Community Development Fund, lasted only three years.

Foundation Criticisms of Venture Philanthropy

Bruce Sievers, executive director of the Walter and Elise Haas Fund of San Francisco and faculty member of the Institute of Nonprofit Organization Management at the University of San Francisco, articulates the major criticisms against venture philanthropy in a 1997 article published in *Foundation News & Commentary*, saying that while a "sexy" idea, it was "dead wrong."[10] Two of Sievers's three major points criticized Letts's assumptions, while the third agreed on the importance of building capacity in nonprofits, but argued that this did not follow from the venture capital approach.

First, Sievers (among others) correctly points out that the basic criterion of success and failure in the for-profit arena is "elegantly simple: did it make money or not?" He continues, arguing that beyond the for-profit world, there is a "spectrum of ways in which the nonprofit sector contributes to the material, associative, aesthetic and moral advancement of society."

This criticism ultimately points to the "metrics" problem in the nonprofit world, which argues that since the good that nonprofits try to create is so diffuse and so hard to measure, any attempt to measure it is (1) pointless, (2) a poor use of resources when money being spent to measure could be used on service delivery, and (3) bound to skew the program incentives by forcing them to measure what can be measured, instead of what is really important. While it is true that nonprofits cannot track profit as a simple measure of success, many nonprofits, such as Jump Start in Boston, have built and developed outcome measures into the heart of their programs and use these to guide their resources. Ultimately, programs that are focused on results will find ways to measure them. American automobile manufacturers in the 1950s thought "quality" was too vague a metric to measure, but learned to do it in the face of Japanese competition.

Sievers's second objection stems from his first: if nonprofit goals are broad and diffuse, any intervention from a funding source to focus on the "success" of those goals is likely to be intrusive, since "the foundation's action would not take into account all of the other diverse goals of the [organization]." This is a common concern among foundations and it is true: if intervening in complex programs with multiple goals, foundation involvement would probably be counterproductive as they would focus on a single task while nonprofits pursue several.

This argument assumes that it is both correct and necessary for nonprofits to be pursuing multiple diffuse goals. However, if a nonprofit is created to focus on a particular problem, with clear measures to track progress on that problem, then there would be no conflict of interest between donor and recipient, as both share the same goal. James Collins argues that many organizations, including nonprofits, try to do *all* good, instead of just focusing on doing the good that they do best and leaving other good to other people who can do it better.[11] Sievers assumes that lack of focus is somehow a necessary part of nonprofit activity, while most successful nonprofits tend to tightly define their areas of operation and activity.

10 Sievers, "If Pigs Had Wings."
11 Collins, James, and Jerry I. Porras, Built to Last (New York: Harper Business, 1998).

Additionally, Sievers also assumes that nonprofits have access to skills, expertise and technology at the same level as foundations. Venture capitalists bring financial and management expertise to the companies they invest in to help the operations succeed and grow. If foundations were able to offer similar support, then their "interference" in their grantees would be constructive, not destructive, and invaluable to those programs going to scale.

Finally, Sievers's last point agrees with the Letts article in encouraging more focus on capacity building in nonprofits, but Sievers argues that such a focus need not come from a venture capital model. Yet, Sievers does not address why such a change in focus has not already happened, since foundations (and these problems) have been around for over 75 years. Sievers himself admits that general support grants have been declining and do not engage the specific organizational development needs of nonprofits.

So why have foundations not been focused on organizational development? Since foundations are in no way responsible for the success or failure of a program—indeed, they deny that success can even be defined and tracked—they have no vested interest in the longevity of the organization. As Letts et al. point out, foundations "face little risk when making grants… [they] are more likely to worry about not spending enough….Because their funds are not at risk, foundations have not had to implement the kinds of controls that venture capitalists use. They rarely tie the compensation and career prospect of their program officers to the performance of grantees." As a result, foundations effectively have a free "put" option on all of their programs (i.e., they face no harm if the program fails) and so act like any rational agents in similar circumstances: they place large numbers of risky small bets, undercapitalize their investments and are not interested in mezzanine-level financing. In this light, nonprofits' diffuse goals seem less a necessary feature of social activity, and more a natural result of diffuse aims and goals, as well as lack of accountability, on the part of funding agencies.

This view stems directly from venture capital attitudes towards risk, investment and reward, and the fact that they are entirely absent from the current foundation world argues against Sievers's assertion that organizational capacity does not require venture capital forms of buy-in and control. Organizational capacity building is only important to foundations if their fates are tied to their grantees, which requires them to involve themselves with the programs and change the donor–recipient relationship to that of invested partners. In this light, the defining aspect of a venture capital approach is the mutual accountability between donor and grantee, not an easily measured metric of success and something which is missing in current foundation giving.

The Pfizer Venture Fund—Lessons Learned

Although a number of social venture funds are in operation today, only one has closed down so far. The Pfizer fund lasted for only three years, and its lack of success, we have found, was attributable primarily to three factors:

- The fund invested in areas it did not have expertise in;
- The fund was unable to mobilize human capital; and
- The fund was not able to successfully manage its risk.

These three factors highlight the difficulties traditional foundations will have when switching to a venture capital model. As funds become more tied to the success or failure of the programs they invest in, expertise and knowledge become more important to the fund staff. They cannot add value to an investment unless they are familiar with the field.

Additionally, mobilization of human capital is something new to the philanthropic world, and something foundations do not have much experience with either. Some nonprofit programs have been able to leverage the skills of their corporate supporters extremely well, and this is something the sector will improve at over time. A venture philanthropy fund will be, from its outset, uniquely well positioned in this arena.

Finally, the task of risk management is perhaps the most difficult and critical ability for foundations to develop. Foundations will need to learn how to distinguish a potentially effective program from a noneffective program and to identify what organizational deficiencies stand in the way of a nonprofit achieving its goal. However, nonprofits cannot be made more effective without these factors being addressed.

F. Conclusion

Social venture philanthropy is the product of both our times and of the quest of many of America's most dedicated citizen and business leaders to share not only their wealth but also the strategies behind their success. In contrast to the philanthropists of old, who established foundations at the twilight of their careers, venture philanthropists are at the height of their professional pursuits. They expect similar returns on their philanthropic investment as they receive in their professional investments, and they are willing to actively get involved to ensure success.

The field is a dynamic one, developing rapidly and unpredictably, marked by experimentation and a willingness to challenge conventional wisdom. New funders, new businesses and new organizations are all feeling and finding their way.

Although social venture funds are new and still unproven, they are designed to tackle some of the structural issues that have prevented foundations from investing effectively in organizational capacity building. If they succeed in creating a philanthropic marketplace that is more responsive to outcomes, they have the potential to create a powerful vehicle for social investment in an environment where the public sector can no longer be relied upon to take successful pilot programs to a national scale.

II. Venture Philanthropy Landscape

A. Continuum of Return Expectations

To better understand the differences between the old and new philanthropic practices, we have introduced an expectations continuum. We believe the shift in behavior beginning to take place in the philanthropic realm can be traced to the changed expectations of the new philanthropist. Those who expect to see measurable outcomes from their investment will demonstrate different behavior than those who give without expectations for change. Specifically, as one moves away from social return on investment towards financial return on investment, expectations become more objective and measurable, which leads to more involved, rigorous investor behavior. It is our intent to shed light on the middle area of the continuum, where for-profit expectations are currently being applied to philanthropic endeavors to maximize investment output.

Traditional philanthropies—foundations in particular—anchor the left end of the continuum. Foundations' investment behavior is often passive, and too little attention is paid to the question of organizational capacity for the grantee. Consequently, traditional philanthropy does not invest sufficiently in the ability of a grantee to grow and become more productive.

Venture capitalists anchor the right side of the expectations continuum. VC firms expect results, which at minimum means a return of their investment and, at best, some kind of profit. Venture capitalists communicate to their investees that there are very real expectations and consequences for failure, and they establish metrics with investees to indicate whether the desired outcomes are being achieved. They encourage investment in capacity building, knowing that without capacity their investment will be at risk. Accordingly, venture capitalists provide expertise, long-term investment commitments and outcome measures to ensure a return on investment. In a word, they *expect* something measurable to come from their investment, and they are committed to seeing that happen.

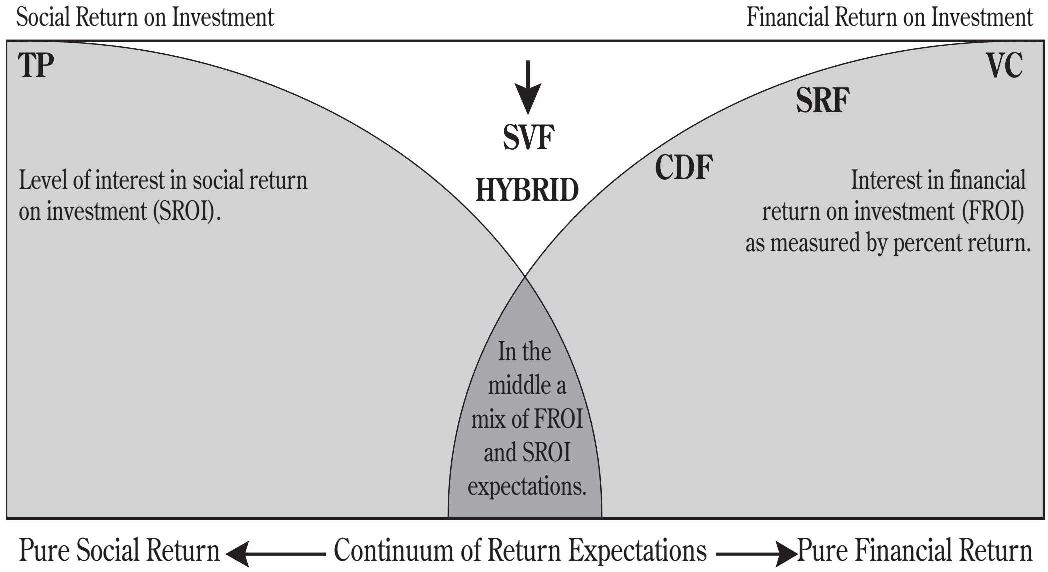
In the middle ground of the continuum, behavior can be reduced to a function of expectations. It is our hypothesis that if expectations shift and become more objective, investment behavior will become more hands-on and rigorous. Investors will fund the capacity of organizations to give them tools to achieve desired results. They will establish metrics of success with investees and will not accept service delivery as the only outcome of their investment. Investees, meanwhile, will begin to focus on building their capacity and improving how services are provided, as a new level of accountability will be introduced.

Figure 1 demonstrates our belief that behavior changes as expectations become more objective. The continuum is effectively split between two expectation categories. Organizations plotted left of center on the horizontal axis seek proportionately greater social return on investment (SROI), while organizations to the right of the center expect and seek greater financial return on investment (FROI). Financial investors care about what happens to their money, which results in a variety of behaviors, including the establishment of metrics and hands-on involvement. Traditional foundations fall on the extreme left of the continuum, as these institutions expect total social return and, for the most part, do not establish strong measurements for success.

B. Venture Philanthropy and Models for Fund Contributions

This report focuses on funding bodies that are applying for-profit techniques to the nonprofit realm—social venture funds—in order to learn what practices are working to maximize investment and identify practical options for building a venture fund. The following table details most of the organizations and foundations currently involved in venture philanthropy, as well as the models through which investors contribute to the fund. Specifically, these organizations use for-profit techniques as identified by Letts et al. to build

Figure 1. Interaction of "Social Return on Investment" and "Financial Return on Investment" along a Continuum Measuring Return Expectations



- **TP** = Traditional Philanthropy, e.g., W.K. Kellogg, C.S. Mott Foundations.
- **SVF** = Social venture funds: philanthropies that use venture capital techniques, expecting social returns exclusively, e.g., Social Venture Partners, Entrepreneurs Foundation.
- **Hybrid** = Point where financial returns and social returns intersect, which includes social venture funds that expect both SROI and FROI returns, e.g., New Schools Venture Fund.
- **CDF** = Community development funds: socially minded venture capital funds that seek FROI, e.g., Appalachian Fund and Northeast Ventures.
- **SRF** = Socially responsive FROI funds, e.g., New Vantage Partners
- **VC** = Traditional venture capital

organizational capacity of grant recipients. The list was derived from an expanding base of contacts within the social venture field. (Please see Appendix 2 for a full discussion of methodology.)

The list is by no means exhaustive, as grant-making organizations are daily exploring the use of venture capital practices. At least four new funds have been launched in the past year, including Social Venture Partners of Arizona, Entrepreneurs Partnership of the Triangle Community Foundation, Austin Social Venture Partners and the Silicon Valley Social Venture Fund.

There are various approaches through which to receive contributions for a social venture fund. Some funds accept stock transfers, while others receive only cash. Likewise, funding bodies seek to leverage cash and human capital in different ways. Some organizations, such as Social Venture Partners, request relatively small investments in the hopes of attracting numerous investors and, concomitantly, volunteers. New Schools Venture Fund, on the contrary, seeks to recruit few investors who will invest large amounts in the fund.

We have categorized organizations in the tables below according to their positions on the continuum of expectations. In the tables that follow, material is organized by the following groups:

- Traditional foundations
- Hybrid foundations (those foundations involved in traditional grant making and venture philanthropy)
- Social venture funds that solely expect SROI
- Social venture funds and organizations which expect both SROI and FROI
- Socially responsible FROI funds
- Venture capital funds and other for-profit ventures

TABLE 1.

TRADITIONAL FOUNDATIONS

Name of Fund	Description and Model for Fund Contribution
EDNA MCCONNELL CLARK FOUNDATION, NEW YORK, NY	• Long-term grant-allocating foundation focused on children, New York neighborhood improvement, student achievement, youth development, and tropical disease research. • Seriously considering implementation of venture fund/venture capital practices in grant allocation.
W.K. KELLOGG FOUNDATION BATTLE CREEK, MI	• Exploring "collaborative venture fund" which will pool together financial and human resources of philanthropies. • Very interested in applying venture capital model "in moderation" to grant making. • While no formal program exists for venture fund, foundation "informally and consistently" provides hands-on, capacity-building assistance to grantees. This includes long-term assistance for some grantees.
MILWAUKEE FOUNDATION MILWAUKEE, WI	• Community foundation that supports local projects. Contains three different kinds of funds: – Nonprofit Management Fund that provides technical assistance to grantees; – Denali Fund, which provides capital to Denali fellows as part of Denali Initiative; – Venture Fund, which is still in exploratory phase.
MOTT FOUNDATION FLINT, MI	• Traditional foundation that offers long-term renewable grants. • Offers 550 grants per year, totaling over $88 million.

HYBRID FOUNDATIONS

Foundations and funding bodies involved in social venture funds and traditional grant making

Name of Fund	Description and Model for Fund Contribution
NEW HAMPSHIRE CHARITABLE FOUNDATION CONCORD, NH	• Community foundation that focuses on broad range of issues—human services, environmental concerns, arts, education, public policy, etc. • Social venture fund inspired by many sources, including Letts et al., which promotes long-term funding and organizational assistance. • Bent on establishing network among grantees. • Fund is very close to operational status. • Investment funds taken from private foundations within overall foundation.

Name of Fund	Description and Model for Fund Contribution
PENINSULA COMMUNITY FOUNDATION, CENTER FOR VENTURE PHILANTHROPY SAN MATEO, CA	• Community foundation that recently launched a Center for Venture Philanthropy, which "emphasizes measurable return on civic investment." • CVP plans to launch several venture funds, in which donors will invest in three-year business plans of an organization or partnership that is new or moving to a new stage. CVP will apply a venture capital-like accountability process to each investment. CVP helps organization secure funding (from internal and external sources) and develop detailed action plans and a Memorandum of Understanding. For example, CVP jointly authored a federal grant with its first investee. • First venture fund investment announced July 20, 1999, with goal of $3.5 million. Includes "Assets for All" Alliance, which supports working poor families in asset acquisition (college education, home ownership, retirement account). Three nonprofits selected to date for first CVP Venture Fund. • CVP will manage the grant and distribute the funds from its coffers (includes salaries, equipment). • Contribution in semester installments upon successful completion of milestones in three-year plan.
ROBIN HOOD FOUNDATION NEW YORK, NY	• Eleven-year-old public charity that seeks to alleviate poverty in New York City by funding and partnering with the city's most innovative community-based organizations. Funding is focused in areas of early childhood, parenting support, schools, after-school programs, and job training. • Foundation seeks to forge long-term relationships with its grant recipients to provide them with program evaluation and management assistance services as well as monetary grants. • Organizes network of high-level volunteers to assist grantees strategically. • Staff comprised of people with many different backgrounds, including former for-profit management consultant, lawyers and executive directors of nonprofit organizations. • Strong network of corporate volunteer contacts.
GREAT BAY FOUNDATION FOR SOCIAL ENTREPRENEURS PORTLAND, MA	• Recently established foundation that supports self-sufficiency projects in aging, healthcare, education, and economic development. • Describes funding as venture capital-oriented to the extent that grants are higher risk than those of typical foundations.

Name of Fund	Description and Model for Fund Contribution
DENALI INITIATIVE **PITTSBURGH, PA**[12]	• Three-year fellowship program divided into two 18-month cycles. First cycle focuses on rigorous learning and training program that is grounded in each fellow's development of a Social Enterprise Plan. This is followed by 18 months of individual coaching. • Community foundations contribute $75,000 funding for each fellow's projects, $25,000 seed funds and $50,000 matching funds. These "Community Seed Funds" provide seed funds for Social Enterprise Plans developed by fellows during their tenure in the Initiative. • Currently has 18 grantees from eight cities in program's first year of existence. • Ewing Marion Kauffman Foundation hosted Denali Initiative Learning and Training Session I; Danforth Foundation in St. Louis will be hosting Session II.
FAITHWORKS[13] **DALLAS, TX**	• Links nonprofit groups with community professionals who provide strategic support. • Extensive network of business and professional contacts who assist organizations.
SOCIAL VENTURE FUNDS	**Focused solely on SROI, using venture capital mechanisms**
Name of Fund	**Description and Model for Fund Contribution**
ENTREPRENEURS FOUNDATION **SAN MATEO, CA**	• Recently created venture fund in Silicon Valley. • Founded by venture capitalists and heavily reliant on venture capital model. • Takes 1% stock equity in startup companies. • Focused on San Francisco youth and education projects. • 49 companies on board to date, $4.9 million total capital. • Relationship with investments to be 5–10 years. • Expects 500 companies to participate, $100 million.
CHALLENGE 2000 OF THE JOINT VENTURE: SILICON VALLEY NETWORK, 21ST CENTURY EDUCATION INITIATIVE **PALO ALTO, CA**	• $24 million venture fund launched by corporations and 20 city governments to improve business climate and quality of life for employees in area. • Focused on education. • Local CEOs, many from tech community, serve as "critical friends" for schools, meet quarterly to troubleshoot. • Well-developed metrics that involve "target summaries." • Donations from corporations go into 501(c)3 of school district fiscal agent for each team.

12 The Denali Initiative is not a foundation, but rather a fellowship program that provides training for social entrepreneurs. It is included in this report under the foundation heading in light of the fact that the program works closely with community foundations and is not a fund itself.

13 Faithworks is similarly not a foundation nor a venture fund, but rather an umbrella body that links volunteers with organizations. The organization is included here in light of its attempt to provide strategic human assistance to nonprofits, a key aspect of the venture philanthropy model.

Name of Fund	Description and Model for Fund Contribution
ENTREPRENEURS PARTNERSHIP, TRIANGLE COMMUNITY FOUNDATION RALEIGH, NC	• Created as part of catalyst project to increase philanthropy in Research Triangle. • Similar to SVP-Seattle model, though deviates in several ways, including no formal criteria or metrics for success. • Partners either contribute $10,000 in cash/early stage stock to fund, and "lenders," who are local startup companies, borrow from fund to make investments in nonprofits of their choice. They replenish fund with early stage stock. • Two verbal commitments of $50,000 to date. • Still in planning stages.
ROBERTS ENTERPRISE DEVELOPMENT FUND, ROBERTS FOUNDATION SAN FRANCISCO, CA	• Evolved from Homeless Economic Development Fund (1990). Assists revenue-generating programs focused on low-income individuals in the Bay Area. • Maintains portfolio of seven nonprofit organizations, which collectively operate 24 for-profit enterprises. Investments based on business plans; REDF operates SROI analysis to measure success. • Provides range of support for portfolio organizations, including multi-year philanthropic investments, access to MBA graduates and technology assistance. • Generally focused on overhauling classic philanthropic approach, including creating engaged partnerships between funder and investee. • REDF is a single donor fund.
SILICON VALLEY SOCIAL VENTURE FUND SAN JOSE, CA	• Potential fund currently being launched under auspices of Community Foundation Silicon Valley (CFSV) and based upon market research conducted by CFSV on giving trends in the Valley. • Fund will serve to educate and engage entrepreneurs in local philanthropic activity. • Exploring Social Venture Partners model. • Focused around quarterly meetings that provide landscape of nonprofit needs in Valley.
SOCIAL VENTURE PARTNERS OF ARIZONA PHOENIX, AZ	• Recently launched venture fund based upon SVP-Seattle model. • Initiated by private donor, run by executive of Lodestar Foundation. • Currently has 51 partners and $260,000. • In preliminary meetings, investors decided to invest in education and children-related organizations. • Lodestar Foundation underwriting startup costs. • Contributions received through Arizona Community Foundation until SVP-Arizona receives tax exempt status. • Installment payments may be monthly, quarterly.

Name of Fund	Description and Model for Fund Contribution
AUSTIN SOCIAL VENTURE PARTNERS **AUSTIN, TX**	• Based upon Seattle model that seeks to attract Austin entrepreneurs. • Founded by small group of Dell employees. • Partners bi-annually decide investment priorities. • Run under auspices of Austin Community Foundation. • 30 partners to date, each of whom invests minimum $5,000 for two years. • First investments announced August 1999, $117,000 to five organizations.
SOCIAL VENTURE PARTNERS, SEATTLE **SEATTLE, WA**	• Venture fund focused on children's and education programs. • Provides venue for entrepreneurs/professionals in Puget Sound area to engage in hands-on philanthropy. • 225 partners to date, minimum "investment" $5,000 for two years. • $1,000,000 to be invested in 2000. • Funds donated through cash or stocks and can be matched with corporate matching gifts. • Providing model for venture philanthropy mirrored in Arizona and Austin.

FUNDS INVOLVED IN SROI AND FROI INVESTMENTS

Name of Fund	Description and Model for Fund Contribution
NEW SCHOOLS VENTURE FUND **REDWOOD, CA**	• Recently established multi-donor tech community fund (August 1998) that supports nonprofits and private companies that improve public K–12 education. • Investors all from venture capital and tech-based entrepreneurial community in Silicon Valley. • Grant recipients are found through networking, or they find NSVF on the Web. • Non-cash donations received in form of appreciated securities. • Plans to be a $10 million–$20 million fund, a size that supporting a portfolio of 8–15 ventures over a two- to three-year period.
NEW PROFIT, INC. **BOSTON, MA**	• "Second stage" investment fund which intends to provide approximately $1 million grants (including technical and managerial expertise) to programs and organizations which create "new profit sector." • Social return primary factor in investment, though expects to invest in nonprofit and for-profit ventures. • In process of raising funds for first portfolio (four organizations).

Name of Fund	Description and Model for Fund Contribution
PFIZER COMMUNITY DEVELOPMENT FUND NEW YORK, NY	• Linked Pfizer employers and capital with urban infrastructure programs. Launched as response to what Pfizer Foundation perceived as shift towards project-specific grants rather than general support grants. • Phased out in 1999. Program did not fit with Pfizer Foundation's expertise or areas of interest. In addition, foundation had difficult time managing senior executive's expectations, as well as finding internal human resources to help investees.
SILICON VALLEY COMMUNITY VENTURES SAN FRANCISCO, CA	• An example of community development corporation • Runs business advisory program to help link entrepreneurs creating jobs in community with business professionals. • Provides loans and equity financing to businesses that create jobs in low income Bay Area communities. • Supported through donations and investments from banks.

SOCIALLY RESPONSIVE FROI FUND

Name of Fund	Description and Model for Fund Contribution
NEW VANTAGE PARTNERS VIENNA, VA	• Advisor to mission-related investors and manager of funds and pools of angel investments. • Focuses on Mid-Atlantic early stage private company investments.

FROI FUND

Name of Fund	Description and Model for Fund Contribution
MID-ATLANTIC INVESTMENT FUND	• Seed and startup fund. • Primarily technology-based but does make community investments that are held to the same return expectations as traditional investments • 100% for-profit venture firm, the polar extreme of foundations.

C. Criteria for Investment and Risk Orientation

Criteria

Table 2 provides examples of investment criteria that funding bodies currently employ. There is no consensus regarding how to make investments, as entrepreneurs and foundations are still experimenting how to generate venture capital-like expectations in the philanthropic realm. Many funds depend upon investors to define grant criteria or work with investees to establish criteria.

There are, however, some overlapping conceptions of what a ”good proposal” looks like. Major factors include leadership potential, an ability to achieve self-sufficiency, a proven track record and entrepreneurial potential. Organizations that provide seed capital to investees often look closely at a grantee's entrepreneurial background and leadership abilities. “In the end, you're funding a person, and the project won't succeed unless this person is a leader,” one fund operator noted.

Risk

For entrepreneurs who seek to introduce venture capital-like disciplines to philanthropy, investment criteria goes hand-in-hand with risk taking. For the purposes of this report, we are equating risk with willingness to fund capacity building. A funder who invests in an organization's future capacity will have no assurances of success and will have no immediate measures of accomplishment. This funding strategy contrasts to that of a traditional foundation which funds service delivery programs. Capacity funding might produce great outcomes down the road, as Letts et al. argue, but there is no proven correlation in the nonprofit sector between capacity building and improved service delivery. One might have to wait for years before seeing results, just as a venture capitalist expects only three of 10 investments to succeed and are uncertain of results when investing in a venture.

There are numerous examples of “risk taking” as defined by Letts et al. in the for-profit world. Boeing, for example, spent the total worth of the company and fired 20% of its work force to fund the 737, which became the world's most popular commercial aircraft.[14] Nonprofit funders, however, have had no motivation in the past to undertake such risks and invest in capacity.

The following table describes the factors that funding bodies consider when making grant/investment decisions. The table also details each organization's risk orientation. Again, we are equating risk with willingness to fund capacity building.

TABLE 2.

TRADITIONAL FOUNDATIONS

Name of Fund	Criteria for Investment	Risk Orientation
EDNA MCCONNELL CLARK FOUNDATION	• No firm criteria yet beyond leadership and proven measures of success.	• While no capacity-building grants are currently available, the foundation eventually intends to invest a significant percentage of its resources in capacity-building grants. Exact methods and proportions are yet to be determined.

14 Collins and Porras, Built To Last.

Name of Fund	Criteria for Investment	Risk Orientation
W.K. KELLOGG FOUNDATION	• Leadership and proven measures of success. • Strong executive team. • Project sustainability.	• While no formal program exists, Kellogg often supports infrastructure development for grantees to help them achieve long-term sustainability.
MILWAUKEE FOUNDATION	For Denali Fund: • Organization must have 5–10 years experience in field. • Entrepreneurial potential. • Budget under $10 million.	• Nonprofit Management Fund support is directed toward agency capacity building.
MOTT FOUNDATION	• Not available.	• Not available.

HYBRID FOUNDATIONS

Name of Fund	Criteria for Investment	Risk Orientation
NEW HAMPSHIRE CHARITABLE FOUNDATION	• Track record of CEO. • Commitment of board to project. • Vision of going to scale. • Project must have statewide impact.	• Funds to be allocated for purposes selected by organization, which may include capacity building.
PENINSULA COMMUNITY FOUNDATION, CENTER FOR VENTURE PHILANTHROPY	• 3–5 year business plan. • Strong organizational leadership that is interested in shared problem-solving with a managing partner and accountability metrics. • Potential for high impact in addressing a regional problem (two-county area). • Lends itself to a venture capital method of investment management. • Ability to generate quarterly datapoints ("stories that pull the heartstrings but also [pull] datapoints on a bar chart"). • Consideration of an exit strategy.	• Funds to be allocated for purposes selected by organization, which may include capacity building • CVP directs funds according to business plan and Memorandum of Understanding conceived with organization. This could lead to capacity-building or direct service funding.

Name of Fund	Criteria for Investment	Risk Orientation
ROBIN HOOD FOUNDATION	• Leadership potential. • Alignment of goals between Robin Hood and organization. • In cases of established organization, track record considered. In cases of startup organizations, criteria similar to that of a venture capitalist, i.e., relevant prior experience of management and board, evidence of need for the services and a sound business plan.	• Robin Hood invests in standard direct service delivery, general operations and capacity building.
GREAT BAY FOUNDATION FOR SOCIAL ENTREPRENEURS	• Program must be led by an “entrepreneur”: an individual who is accountable for accomplishing the goals of the project. • Grantee programs must have goal for economic self-sufficiency. • Ultimate goal of project must be to enhance/enable/work towards the self-reliance or self-sufficiency of the individuals on whom the project is focused. • Must focus on aging, health care education or economic development.	• Capacity funding part of effort to help grantees achieve economic self-sufficiency.
FAITHWORKS	• Not applicable.	• Not applicable.
DENALI INITIATIVE	• Community Seed Fund (distributed by community foundations, not Denali Initiative) provides “gap” financing necessary for nonprofit agencies to develop earned income activities and program for-profit ventures. • Eligible projects include earned income or business activities that are part of nonprofit or through linked relationship.	• Denali Initiative Cycle Two is designed to address organizational capacity as it pertains to launching of social enterprise project. Areas to be addressed include board development, organizational change, organizational succession and organization assessment.

Name of Fund	Criteria for Investment	Risk Orientation
DENALI INITIATIVE *(continued)*	• Funds may be used for any purpose except refinancing of existing department. This includes purchase of equipment and fixtures, working capital, training and technical assistance, etc.	

SOCIAL VENTURE FUNDS

Name of Fund	Criteria for Investment	Risk Orientation
ENTREPRENEURS FOUNDATION	• Leadership. • Potential for success on a small scale.	• Investments focus on whole organization and program, including organizational capacity, fiscal controls, etc.
CHALLENGE 2000 OF THE JOINT VENTURE: SILICON VALLEY NETWORK, 21ST CENTURY EDUCATION INITIATIVE	• Developed rubric to use as scorecard to determine whether proposal is approved. • Six readers of proposal must reach consensus on scale of 1–4. Proposals with a score of 3 or more received site visits. Others went for approval before full board, which made suggestions on improving “business plan.” • All eventually approved.	• Teams are funded according to their individual business plans on a venture capital model; thus capacity building inherent in the process.
ENTREPRENEURS PARTNERSHIP, TRIANGLE COMMUNITY FOUNDATION	• Investors to determine criteria.	• Investors to determine risk orientation.
ROBERTS ENTERPRISE DEVELOPMENT FUND, ROBERTS FOUNDATION	• Entrepreneurial vision. • Ability to execute 3–5 year business plan.	• REDF gives capacity-building grant ranging between $100,000–$125,000 annually.
SOCIAL VENTURE PARTNERS OF ARIZONA	• Organization with visionary leader. • Each grant-making committee established priorities for grant making within the broad areas of education and children.	• SVP-Arizona could fund program or capacity building requests, although the latter will be addressed through hands-on activities, e.g., developing strategic plan or building computer capacity.

Name of Fund	Criteria for Investment	Risk Orientation
AUSTIN SOCIAL VENTURE PARTNERS	• Supports programs that focus on prevention, not intervention, can benefit from ASVP's hands-on assistance, have long-term vision, and are committed to measurable results. Added consideration given to organizations that can meet goals through effective use of technology.	• Partners to determine investment priorities, which may include organizational capacity. • An organization's ability to increase its capacity is considered as part of investment screening process.
SOCIAL VENTURE PARTNERS, SEATTLE	• Organization with visionary leader. • Track record. • Fits with mission's focus on children and education.	• Grants are for general operating support. Through grants and volunteer support, goal is to help build organizational capacity of investees. • Will be developing 3–5 year "capacity building plans" with each investee at start of year 2.

FUNDS INVOLVED IN SROI AND FROI INVESTMENTS

Name of Fund	Criteria for Investment	Risk Orientation
NEW SCHOOLS VENTURE FUND	• Venture must be scalable with the potential to impact thousands of students. • Must be sustainable with either sound revenue models or clear, alternative and creative funding plans. • Must have passionate leaders who have expertise in education and business management, and the wherewithal to execute the venture's vision. • New Schools participation must be able to make a difference. • The venture must have a significant opportunity to improve K–12 public education. • It must target a "sweet spot" in the system.	• Describes itself as "able to take risk that private markets cannot in light of its commitment to both SROI and FROI."

Name of Fund	Criteria for Investment	Risk Orientation
NEW SCHOOLS VENTURE FUND *(continued)*	• Its educational outcome and impact must be measurable. • For-profit investments must demonstrate FROI potential.	
NEW PROFIT, INC.	• Leadership. • Potential for growth in field. • Strategic growth plan. • Socially entrepreneurial. • Track record. • Applicants placed through rigorous screening and due diligence process.	• Applicants must demonstrate how they can utilize capacity-building funds. • New Profit Inc. provides consultants from Monitor Company to assist investees in identifying needs and implementing strategic plan.
PFIZER COMMUNITY DEVELOPMENT FUND	• Not available.	• Grants given for general support, and Pfizer Foundation encouraged grantees to use funds for capacity building, including feasibility studies and marketing plans.
SILICON VALLEY COMMUNITY VENTURES	• Location in low-income community in Bay Area and/or plans to hire from low-income communities. • Vision for entrepreneurial ventures and growth potential. • Good business and credit rating.	• Funds used by investee for launching venture, which includes internal capacity.

SOCIALLY RESPONSIVE FROI FUND

Name of Fund	Criteria for Investment	Risk Orientation
NEW VANTAGE PARTNERS	• Each client or fund develops own criteria and deal flow approach based upon financial and social goals.	• Uses modified venture capital risk-reward approach.

FROI Fund

Type of Fund/Name of Fund	Criteria for Investment	Risk Orientation
MID-ATLANTIC INVESTMENT FUND	• Standard venture capital criteria, i.e. track record, leadership, alternative funding sources, uniqueness of concept.	• Expects one out of three investments to fail.

D. Closeness of Relationship Between Funder and Investee

While traditional foundations usually assume a hands-off approach towards grant making, organizations involved in venture philanthropy often seek to fortify a grantee's organizational capacities through hands-on involvement. Underlying this practice is the notion that venture philanthropists hold a stake in their investment—they expect returns—and are consequently willing to assist investees to ensure success. Conversely, those who implement the venture capital model often seek to create an environment in which investees may voice issues and problems that usually remain hidden from grant makers.

Hands-on involvement with grant recipients assumes many forms. The table below highlights levels of involvement among organizations that were researched, as well as various modes of human engagement employed by current venture funds. The table focuses upon the most typical sources of human capital upon which grant-making bodies may draw: investors, volunteers, and fund/foundation staff.

Conclusions Regarding Human Involvement

The diversity of researched models suggests that no sure method has been developed to leverage investor involvement. Some groups include investors and foundation staff in the grant execution process, for example, while others seek to tap into volunteer resources to maximize investment output. Several foundation leaders question the utility of the model altogether. "There's nothing you can do on the board that you couldn't do off the board," one foundation director noted.

The most advanced models utilize several common mechanisms. Three common methods through which one can leverage human capital against financial assistance have been distilled:

1. *Involve investors and staff directly in project execution, perhaps to the point of sitting on the board of a grant recipient.*

   While some organizations, such as New Profit Inc., plan to place staff on grantee boards, many of those interviewed found such venture capital techniques to be extreme, if not intrusive. One must also question the feasibility of such involvement. A former director of Joint Venture: Silicon Valley Network's Challenge 2000 program noted that the placement of executives on grantee boards proved challenging, as some grantees resented the constant presence of executives. Similarly, many foundation officers do not have expertise in growing an organization and thus might not be able to contribute to a grantee strategically.

   It is crucial to determine whether staff and investor talent would be utilized strategically or spent upon "soft" work, such as delivery assistance. The Social Venture Partners model provides the most detailed example of leveraged investor involvement, but there is no data yet to demonstrate the impact of partner involvement. In short, the applicability of long-term direct board placement to nonprofit organizations remains to be seen.

2. *Establish a network of volunteers and investors that capitalizes on community resources.*

   The Entrepreneurs Foundation and Robin Hood Foundation both seek to leverage local community talent to strategically assist grant recipients. Robin Hood Foundation, for example, establishes partnerships between Deloitte & Touche accountants and grant recipients to assist grantees with bookkeeping and budget balancing. Again, it is crucial to examine whether volunteers are providing strategic or "soft" help, especially in light of the fact that volunteers, while providing human capital, do not possess the sense of financial incentive that motivates venture capitalists.

3. *Hire paid consultants to facilitate grant execution and oversight.*

   The New Hampshire Charitable Foundation has included a budget for consultants in its investments, in addition to the strategic assistance grantees will receive from the foundation's staff. While this method will provide organizations with a consistent source of strategic assistance, it might not engender the sense of 'owning a stake' in an investment critical to the venture capital model.

   Unfortunately, there is little empirical data in the nonprofit sector to determine which approach works best, if any. Many organizational leaders who are well aware of Letts et al.'s model are choosing to deviate from it, which points to the fact that not all aspects of the venture capital model need to be applied to philanthropy. Perhaps a hybrid human involvement structure, in which a network of investors and volunteers are involved, might maximize investment impact. When executives at 21st Century Education Initiative learned that Challenge 2000's hands-on investment model was not producing desired results, the organization implemented a "critical friends" plan, which involved short-term, quarterly meetings between loaned executives and grantees. This system provided an effective venue for partnering. Further investigation of such volunteer networks will be helpful in determining how to leverage human capital and generate a sense of "stake" in investments.

   The following table describes how funding bodies participate in the activities of the investee/grant recipient. Specifically, we have attempted to determine how organizations leverage human capital to fortify a grantee's organizational capacity, including by placing staff members on grantee boards and organizing volunteer networks.

TABLE 3.

TRADITIONAL FOUNDATIONS

Name of Fund	Investors / Volunteers	Staff	General Involvement
EDNA MCCONNELL CLARK FOUNDATION	Foundation is exploring ways to build capacity of grantees, which might involve formation of volunteer committees.	Currently involved in developing Institution and Field Building grant program to assist in capacity building for grantees.	Actively exploring capacity-building grants.
W.K. KELLOGG FOUNDATION	As the chief "investor," Kellogg does not always view partnering as appropriate for organization, but rather as a situational possibility.	Sometimes takes more active role in managing relationship, but not always.	Exploring collaboration with other foundations, including Packard, Irvine and Mott.
MILWAUKEE FOUNDATION	Staff will be hiring consultants to assist grantees.	As part of the Denali Initiative, the foundation will involve program officers in partnership mentoring.	Described by Denali Initiative as "light years ahead" of other organizations in implementation of self-sufficiency grant-making program.

Name of Fund	Investors / Volunteers	Staff	General Involvement
MOTT FOUNDATION	Not available.	Not available.	Provides long-term grants, but has no mechanisms for hands-on participation.

HYBRID FOUNDATION

Name of Fund	Investors / Volunteers	Staff	General Involvement
NEW HAMPSHIRE CHARITABLE FOUNDATION	Consultants will work with grantees.	Senior vice president and other staff will work hands-on with grantees. Vicepresident plans to meet frequently with grantees.	• Establishing seminar and an entrepreneurial institute for grantees, with hopes of fostering supportive network among grantees and business experts. • Foundation plans to serve as go-between among grantees and government, as well as grantees and other potential funders.
PENINSULA COMMUNITY FOUNDATION, CENTER FOR VENTURE PHILANTHROPY	Currently forming Investment Council of investors for Venture Fund #1, which will include those who wish to problem-solve with nonprofit management teams on a quarterly basis. The Memorandum of Understanding is the guide for these discussions, facilitated by CVP as a managing partner.	Staff considered to be managing partners of the investment, acting as venture capitalists in supporting nonprofit team and holding nonprofit team accountable for goals designated in three-year business plan.	Staff actively engaged in investment.
ROBIN HOOD FOUNDATION	• Private and corporate donors do not have strong involvement in grant-making process. • Very strong network of volunteers among professional community and corporate donors, e.g., Deloitte accountants. (See footnote 15.)	Robin Hood's staff are intimately involved with grant recipients.[15]	• Though neither RHF staff nor donors sit on board, RHF bears significant influence on grant program. • RHF provides high-level hands- on assistance to grantees, both through volunteer network and through staff. • Strong infrastructure model to imitate.

15 Robin Hood Foundation's five managing directors, or program officers, each closely oversee a portfolio of grant recipients in a particular issue area. Oversight includes assistance with yearly goal setting, provision of assistance with strengthening programs, some informal management assistance, help with program evaluation and identification of management and capacity issues for referral to Robin Hood's Management Assistance staff. Robin Hood's Management Assistance staff work closely with grant recipients on a range of issues, from strategic planning to operations improvement to more technical issues, such as accounting, technology, real estate, etc. For-profit professional service firms provide some of the management assistance pro bono to Robin Hood grant

Name of Fund	Investors / Volunteers	Staff	General Involvement
GREAT BAY FOUNDATION FOR SOCIAL ENTREPRENEURS	• Investors established criteria for investment only. • Developing a network of individuals with expertise in various fields who are willing to be a resource to grantees.	CEO provides ad hoc, hands-on advice. No set program.	• No established methodology for leveraging human capital against financial assistance. • Foundation is willing to provide expertise where volunteers or staff are not available.
DENALI INITIATIVE	Not applicable.	Not applicable.	
FAITHWORKS	Faithworks recruits and partners professionals with organizations to provide strategic support for nonprofits.	Staff serve liaison role between volunteers and organizations.	Hands-on involvement is focus of entire program.

VENTURE PHILANTHROPY FUNDS

Name of Fund	Investors / Volunteers	Staff	General Involvement
ENTREPRENEURS FOUNDATION	• EF recruits volunteers among Silicon Valley's professional community to provide strategic assistance to grantees. • Board of Directors involved in investment decision.	Staff raise equity, coordinates volunteer network.	• Seeks to leverage human assets from local community. • Establishing network of volunteers to assist grantees. • No plan to date as to how volunteers will participate.
CHALLENGE 2000 OF THE JOINT VENTURE: SILICON VALLEY NETWORK, 21ST CENTURY EDUCATION INITIATIVE	• Some investors involved, but not to high capacity. • Relies almost exclusively on community volunteers to serve as "critical friends."	Staff do not partner, but rather serve as liaison between volunteer network and schools.	• Volunteers, including president of Hewlett Packard, play extremely hands-on role. • 'Critical friends' troubleshoot, strategize. • 'Critical friends' previously sat on board, but were found to be ineffective; they currently partner on short-time basis with school. • Critical friends often on loan from corporations.

Name of Fund	Investors / Volunteers	Staff	General Involvement
CHALLENGE 2000 OF THE JOINT VENTURE: SILICON VALLEY NETWORK, 21ST CENTURY EDUCATION INITIATIVE *(continued)*			• Nonprofits at first uncomfortable with critical friend role, but ultimately great results achieved. • School boards honored to be linked with CEOs, raised level of performance.
ENTREPRENEURS PARTNERSHIP, TRIANGLE COMMUNITY FOUNDATION	Partners will designate their own plans for involvement. TCF will educate partners on opportunities for venture investing in nonprofits.	Staff administer program.	In contrast to SVP-Seattle, EP does not plan to have any formal program for hands-on involvement.
ROBERTS ENTERPRISE DEVELOPMENT FUND, ROBERTS FOUNDATION	REDF sponsors Farber Intern and Fellows program to provide hands-on business assistance to partners. REDF also partners business analyst from Keystone Community Ventures with investees to provide strategic assistance, as well as uses volunteers from Partners for Profit.	Staff work with nonprofit executive director, enterprise manager and, as appropriate, a board member from investee organization through "Venture Committees." Committee meets monthly to review financial and operational performance and troubleshoot.	Has extremely well-developed system for involvement with investee.
SOCIAL VENTURE PARTNERS OF ARIZONA	• Two committees, each with about 10 investors, currently designing guidelines and principles of involvement. • Board involvement is discouraged. • Partners will engage in capacity building and volunteer services for investees.	SVP-Arizona will have an executive director, but hands-on involvement will occur through partners.	Expected to be high, as partners will provide hands-on assistance and will have a hand in running fund.
AUSTIN SOCIAL VENTURE PARTNERS	Similar to SVP-Seattle, 40% of investors heavily involved, 30% moderately engaged, and 30% write checks.	ASVP is a virtual organization and thus has no staff. Volunteers undertake whatever administrative tasks must be performed.	Investors provide strategic assistance, similar to SVP-Seattle.

Name of Fund	Investors / Volunteers	Staff	General Involvement
SOCIAL VENTURE PARTNERS, SEATTLE	• 150 investors engaged heavily, 50 “limited partners” (i.e., they contribute money only), 100 give time and expertise, ranging from 1–5 hours per week either working with investee or doing grant work for SVP. • Two new grant committees to start in September and October 1999; 13 volunteer teams working with investees; portfolio working group monitoring entire grant-making and re-funding process and 4–5 teams that help with SVP organizational issues.[16]	Staff administer fund, serve as liaison between investors and investees, and coordinates portfolio working group.	• Heavy reliance on investor participation. • SVP focusing on development of portfolio group that will oversee entire grant-making process.

FUNDS INVOLVED IN SROI AND FROI INVESTMENTS

Name of Fund	Investors / Volunteers	Staff	General Involvement
NEW SCHOOLS VENTURE FUND	• 8–15 active donors who sit on investment committee. • Strong involvement of network whose business skills are applicable to education.	Matches board of directors member with each venture.	To ensure success of its investees, New Schools provides entrepreneurs with a board member with relevant experience, assistance with recruiting top-quality team members, strategic consulting, a powerful network of other entrepreneurs and New Economy resources and volunteers.
NEW PROFIT, INC.	• Considering the placement of investors on boards to be active managers. • Will assign one Monitor Company consultant to each investee for 12–18 months. New Profit, will also call upon academic resources in area.	Staff of skilled managers who will take seats on board.	• Represents extreme of involvement. • Expects to operate according to venture capital model.

16 SVP-Seattle originally commissioned re-funding groups to review grants after the initial year of funding. These groups were replaced with a portfolio monitoring group in order to maintain cohesion in the entire process. In addition, each volunteer team has a lead partner or co-lead volunteer who provides strategic assistance. Volunteer projects range from one-time activities to project-related tasks (several weeks) and ongoing regular commitments (e.g., tutoring once a week). Examples include building a database for grantees, writing a business plan and identifying technological needs of the grantee.

Name of Fund	Investors / Volunteers	Staff	General Involvement
PFIZER COMMUNITY DEVELOPMENT FUND	Pfizer Foundation had difficulty leveraging company business resources.	Staff searched for and hired consultants to help grantees.	Urban development focus did not coalesce with Pfizer's health focus.
SILICON VALLEY COMMUNITY VENTURES	• Donors/investors often serve as business advisors. • SVCV hosts resource network to match local business resources with businesses. Provides expertise, business planning, software, hardware, and professional services to portfolio companies.	SVCV staff will sit on boards of businesses and provide coaching, recruiting assistance, contacts, etc.	Staff and investors involved in helping grant maximize funds.

SOCIALLY RESPONSIVE FROI FUND

Name of Fund	Investors / Volunteers	Staff	General Involvement
NEW VANTAGE PARTNERS	Mission-related clients' involvement ranges from passive to active; typical is advisory role with companies, usually a board of directors role.	Not applicable.	

FROI FUND

Name of Fund	Investors / Volunteers	Staff	General Involvement
MID-ATLANTIC INVESTMENT FUND	Investors usually assume one board seat.	Not applicable.	Venture capital demands hands-on involvement in investment.

E. Amount of Investment

Much like fledgling companies, nonprofit organizations often require extensive time and consistent capital to develop their programs, perfect delivery systems and maximize organizational performance. The venture capital model encourages partners to provide investees with the capital and time frame required to bring their programs to fruition. Several large foundations, including Mott, Packard and Kellogg, are exploring collaborative programs to fund organizations. But the most experimental efforts are taking place in the multi-donor social venture fund field, where investors are exploring a variety of fund amounts and time frames to help investees build capacity and go to scale.

The following table highlights the total amount of funding that foundations currently or plan to invest in venture funds and, where appropriate, the number of grant recipients.

TABLE 4.

TRADITIONAL FOUNDATIONS

Name of Fund	Amount of Grant/Investment
EDNA MCCONNELL CLARK FOUNDATION	• Average grant size $166,491.
W.K. KELLOGG FOUNDATION	• Grants range up to $10 million. • Average grant size $173,988, median size $69,254.
MILWAUKEE FOUNDATION	• Denali Initiative = $150,000. Each Denali fellow will have access to $75,000 in capital over three years. • $125,000 in Nonprofit Management Fund.
MOTT FOUNDATION	• Foundation gave 550 grants worth $88,213,809 in 1998. Grant size dependent on sector. • General range $10,000 to approximately $1 million.

HYBRID FOUNDATIONS

Name of Fund	Amount of Grant/Investment
NEW HAMPSHIRE CHARITABLE FOUNDATION	• $30,000–$50,000 cash annually. • Four organizational partners selected, April 1999.
PENINSULA COMMUNITY FOUNDATION, CENTER FOR VENTURE PHILANTHROPY	• Three nonprofit partners to date. • First fund goal is $3.5 million.
ROBIN HOOD FOUNDATION	• Typical “first time” grant about $50,000. • Largest grant approximately $700,000 per year. • Average grant approximately $100,000 per year.
GREAT BAY FOUNDATION FOR SOCIAL ENTREPRENEURS	• Will distribute approximately $600,000 annually.
DENALI INITIATIVE	• Community Seed Fund is $75,000 total per fellow, available over three years of fellowship. • 18 fellows.
FAITHWORKS	• Not applicable.

SOCIAL VENTURE FUNDS

Name of Fund	Amount of Grant/Investment
ENTREPRENEURS FOUNDATION	• First investment of $325,000 made in fourth quarter 1999. • Investments to be made incrementally, based on agreed-upon performance goals.
CHALLENGE 2000 OF THE JOINT VENTURE: SILICON VALLEY NETWORK, 21ST CENTURY EDUCATION INITIATIVE	• Maximum $1.2 million, distributed according to Memorandum of Understanding. • Third year funding granted if MOU outcomes are met. • Also offers startup resources, such as computers and desks. • Nine teams of 13 school districts (54 schools).
ENTREPRENEURS PARTNERSHIP, TRIANGLE COMMUNITY FOUNDATION	• To be decided by partners later this year.
ROBERTS ENTERPRISE DEVELOPMENT FUND, ROBERTS FOUNDATION	• Seven nonprofit organizations operating 25 business ventures.
SOCIAL VENTURE PARTNERS OF ARIZONA	• $260,000 in fund, no grantees to date. • Hopes to bring in co-investors as part of strategy.
AUSTIN SOCIAL VENTURE PARTNERS	• $10,000–$100,000 for individual grants. • $117,000 distributed in first grant cycle.
SOCIAL VENTURE PARTNERS, SEATTLE	• $24,000–$70,000. • 13 current grant recipients.

FUNDS INVOLVED IN SROI AND FROI INVESTMENTS

Name of Fund	Amount of Grant/Investment
NEW SCHOOLS VENTURE FUND	• $1 million average investment. • Four portfolio organizations: GreatSchools.net, Success for All, LearnNow, University Public Schools. • 8–15 recipients expected.
NEW PROFIT, INC.	• Expecting approximately $1 million per investee, including technical and managerial assistance. • Four organizations to compose first fund portfolio.
PFIZER COMMUNITY DEVELOPMENT FUND	• $15,000 for three years.
SILICON VALLEY COMMUNITY VENTURES	• Loans/investments range from $50,000–$250,000. • 14 current portfolio businesses.

SOCIALLY RESPONSIVE FROI FUND

Name of Fund	Amount of Grant/Investment
NEW VANTAGE PARTNERS	• Private investors usually seek to invest $100,000 to $1 million in mission-related private ventures.

FROI FUND

Name of Fund	Amount of Grant/Investment
MID-ATLANTIC INVESTMENT FUND	• Average investment $500,000–$2 million.

F. Duration of Investment

Traditional venture capital firms provide capital over a 5–10 year period to help investees develop whatever internal components are necessary to succeed. Likewise, venture philanthropy encourages funders to provide capital for extended periods of time to help investees build capacity and deliver services with greater impact.

Not all aspects of the venture capital funding model dovetail with venture philanthropy, however. Specifically, multi-year funding requires funders to make long-term budget commitments, which can potentially tie up an organization's annual budget and arrest an institution's ability to respond to new issues. Long-term grant making thus might work for some funding bodies that are large enough to support sustained grants, but might not work for small social philanthropy investors.

The following table details the average length of each venture fund's involvement with investees/grant recipients.

TABLE 5.

TRADITIONAL FOUNDATION

Name of Fund	Amount of Grant/Investment
EDNA MCCONNELL CLARK FOUNDATION	• Several organizations receive long-term, multi-year grants intended to develop infrastructure.
W.K. KELLOGG FOUNDATION	• Average three years, sometimes four to five years.
MILWAUKEE FOUNDATION	• Three years duration.
MOTT FOUNDATION	• Varies.

HYBRID FOUNDATIONS

Name of Fund	Amount of Grant/Investment
NEW HAMPSHIRE CHARITABLE FOUNDATION	• Three to five years minimum.

Name of Fund	Amount of Grant/Investment
PENINSULA COMMUNITY FOUNDATION, CENTER FOR VENTURE PHILANTHROPY	• CVP plans to author one-year MOU with each investee. • MOU will support three- to five-year business plan. • Cash will be delivered when milestones are met, on a semester basis.
ROBIN HOOD FOUNDATION	• Grants are made for one year and are renewable for an unlimited period of time. • Decisions on renewal are based on the grant recipient's achievement of annually agreed-to goals, results of program evaluation, and other factors.
GREAT BAY FOUNDATION FOR SOCIAL ENTREPRENEURS	• Grants committed for one year, with the possibility of being renewed for up to an additional two years.
DENALI INITIATIVE	• Community Seed Fund is available for three years of the fellowship. • Ewing Marion Kauffman Foundation and Ford Foundation have made five-year verbal commitment to support the Initiative. • Denali Initiative has plans to launch a Denali Initiative Alumni Association to encourage fellows to stay involved and to provide peer relationships to future participants.
FAITHWORKS	• Duration of partnering relationship varies.

SOCIAL VENTURE FUNDS

Name of Fund	Amount of Grant/Investment
ENTREPRENEURS FOUNDATION	• Expected 5–10 year relationship. • Grant will be allocated incrementally based on agreed-upon performance goals.
CHALLENGE 2000 OF THE JOINT VENTURE: SILICON VALLEY NETWORK, 21ST CENTURY EDUCATION INITIATIVE	• Minimum three years. • Possible additional two years if grantee qualifies.
ENTREPRENEURS PARTNERSHIP, TRIANGLE COMMUNITY FOUNDATION	• Duration of investment to be determined by partners.
ROBERTS ENTERPRISE DEVELOPMENT FUND, ROBERTS FOUNDATION	• Not available.
SOCIAL VENTURE PARTNERS OF ARIZONA	• To be determined.
AUSTIN SOCIAL VENTURE PARTNERS	• 12 months, renewable for longer period if organizations meet goals.
SOCIAL VENTURE PARTNERS, SEATTLE	• 12 months, with possible multi-year grants to follow. • Anticipating five- to seven-year relationship. • First seven investees have been renewed for two more years each.

FUNDS INVOLVED IN SROI AND FROI INVESTMENTS

Name of Fund	Amount of Grant/Investment
NEW SCHOOLS VENTURE FUND	• Not available, though short-term funding considered.
NEW PROFIT, INC.	• Expected medium to long-term, three to five years.
PFIZER COMMUNITY DEVELOPMENT FUND	• Three years.
SILICON VALLEY COMMUNITY VENTURES	• Investments/loans last four to five years.

SOCIALLY RESPONSIVE FROI FUNDS

Name of Fund	Amount of Grant/Investment
NEW VANTAGE PARTNERS	• Average investment three to five years.

FROI FUND

Name of Fund	Amount of Grant/Investment
MID-ATLANTIC INVESTMENT FUND	• Six to seven years.

G. Metrics and Return Calculations

While many organizations possess clear guidelines regarding how to invest, few possess specific measures to calculate investment returns. When asked about metrics, most fund executives noted that return measures are still being determined and will probably be formulated on a case-by-case basis.

The dearth of substantive metrics to determine investment success points to the fact that few investors have a clear vision of how to calculate returns. In contrast to the traditional venture capital model, in which financial measurements provide clear measures of success, there are no defined mechanisms to reflect "added value" in venture philanthropy. Moreover, the venture capital model applies to companies who plan to achieve financial self-sufficiency, while most social service organizations have no such aspirations and consequently cannot be expected to function independently.

At the same time, many programs have begun to effectively make use of quantitative measurements. Staff at Joint Venture: Silicon Valley's 21st Century Education Initiative, for example, rely upon standardized test scores to measure achievement, in addition to MOUs established with investees. Other foundations, such as the New Hampshire Charitable Foundation, similarly establish stringent criteria with partners to determine the projects' success and worthiness of further funding. Finally, the Roberts Enterprise Development Fund employs an SROI analyst to assist in the development of outcomes and measures.

The following table describes funding bodies' designated outcome measurements, financial and otherwise.

TABLE 6.

TRADITIONAL FOUNDATION

Name of Fund	Outcome Measurements
EDNA MCCONNELL CLARK FOUNDATION	• Establishes performance measures with each grantee.
W.K. KELLOGG FOUNDATION	• Defines outcomes with grantee, described as "very methodical" with regard to outcomes.
MILWAUKEE FOUNDATION	• Establishes performance measures with grantees.
MOTT FOUNDATION	• Not available.

HYBRID FOUNDATIONS

Name of Fund	Outcome Measurements
NEW HAMPSHIRE CHARITABLE FOUNDATION	• Must have fulfilled criteria of statewide impact in social issues. • Social return metrics established with each partner through development of business plan in first year of partnership.
PENINSULA COMMUNITY FOUNDATION, CENTER FOR VENTURE PHILANTHROPY	• MOU with each investee will determine tailored outcomes.
ROBIN HOOD FOUNDATION	• In each of the issue areas it funds, Robin Hood has developed a set of process and outcome measures that it collects from grant recipients. For instance, in the training area, Robin Hood collects data about the number of participants in the program that graduate, that get jobs, how long the job is retained, starting salary levels, promotions and salary increases.
GREAT BAY FOUNDATION FOR SOCIAL ENTREPRENEURS	• Entrepreneurs articulate criteria to measure success in grant application. Great Bay expects grantee to achieve goals or, having failed do so, revise the goals to be consistent with what is achievable.
DENALI INITIATIVE	• Director of educational policy, University of Missouri–Columbia, evaluates the Denali Initiative. • Program is evaluated on quarterly basis. • Fellows evaluate each learning and training session. • Fellows submit monthly report.
FAITHWORKS	• Not available.

SOCIAL VENTURE FUNDS

Name of Fund	Outcome Measurements
ENTREPRENEURS FOUNDATION	• Dependent upon outcomes of investment.
CHALLENGE 2000 OF THE JOINT VENTURE: SILICON VALLEY NETWORK, 21ST CENTURY EDUCATION INITIATIVE	• specific measures of return—usually quantitative—established by JVSV and organization (school exams, standardized tests, etc.). • JVSV works with organizations to establish clear goals and performance measures. • Initiated target summaries, "reporting tools" that make sense both to business and nonprofit team members.
ENTREPRENEURS PARTNERSHIP, TRIANGLE COMMUNITY FOUNDATION	• To be determined by investors on case-by-case basis.
ROBERTS ENTERPRISE DEVELOPMENT FUND, ROBERTS FOUNDATION	• Developed indices of operational and social outcome success with organizations. Then developed "WebTrack" system to track monthly performance on both economic and social terms, as articulated by business plan. • System designed to allow managers to continually improve practice rather than depend on external assessments.
SOCIAL VENTURE PARTNERS OF ARIZONA	• Will establish guidelines with grantees.
AUSTIN SOCIAL VENTURE PARTNERS	• Will establish guidelines with grantees.
SOCIAL VENTURE PARTNERS, SEATTLE	• 12-month objectives established with each investee. • Subjective evaluation from working with each investee. • No objective ROI metrics. • Business plan assessment and review.[17]

FUNDS INVOLVED IN SROI AND ROI INVESTMENTS

Type of Fund/Name of Fund	Outcome Measurements
NEW SCHOOLS VENTURE FUND	• For-profit investees must be profitable, while also demonstrating social value (metrics not available). • Nonprofit investees must demonstrate a social return on investment, which is measured in education outcomes.
NEW PROFIT, INC.	• Will use "balanced scorecard" approach, which involves evaluating overall growth, fulfillment of outcome goals, finances, organizational procedures, and client satisfaction.
PFIZER COMMUNITY DEVELOPMENT FUND	• Expected for-profit investees to break even, nonprofit investees to track statistical information on success.

17 Social Venture Partners-Seattle plans to help each grantee write a business plan; further grant funding will be based upon a review of the business plan.

Name of Fund	Outcome Measurements
SILICON VALLEY COMMUNITY VENTURES	• Number of jobs created and retained. • Number of models created. • Increase in local tax base. • Public expenditures reduced. • Repay loan or generate equity return on investment.

SOCIALLY RESPONSIVE FROI FUNDS

Name of Fund	Outcome Measurements
NEW VANTAGE PARTNERS	• Each client defines mission and anticipated social returns along with financial return target on their mission-related portfolios. • Most want rates of returns in the teens along with social dividend.

FROI FUND

Name of Fund	Outcome Measurements
MID-ATLANTIC INVESTMENT FUND	• Financial return.

Appendix 1: List of Contacts

Organization	Address / Name / Telephone	Website
1. Austin Social Venture Partners	Austin Social Venture Partners, Dell Computer Corporation One Dell Way, Round Rock, TX 78682 Lunsford, David 512 338-4400	www.asvp.org
2. Community Development Venture Capital Alliance	9 E. 47th, 5th floor NY 10017 Tesdell, Kerwin 212 980-6790	
3. Community Foundation Silicon Valley	60 S. Market St, suite 1000, San Jose, CA 95113-2336 Luenberger, Susan 408 278-0270	www.cfsv.org
4. Denali Initiative	Manchester Craftsmen Building, 1815 Metropolitan St., Pittsburgh, PA 15233 Pomeroy, Donnie 412 322-1773	
5. Open Society Institute	400 W. 59th St., New York, NY 10019 Pitofsky, Jim 212 548-0600	www.soros.org
6. Echoing Green	198 Madison Ave., 8th floor, NY, NY 10016 Holly Hendrix	www.echoinggreen.org
7. Edna McConnell Clark Foundation	71 Cranberry St., #3, Brooklyn, NY 11201 Proscio, Tony 718 625 0035	www.fdncenter.org
8. Edna McConnell Clark Foundation	250 Park Ave., # 900, New York, NY 10177 Bailin, Michael 212 551-9100	www.fdncenter.org
9. Edna McConnell Clark Foundation	250 Park Ave., # 900, New York, NY 10177 Roob, Nancy 212 551-9100	www.fdncenter.org
10. Entrepreneurs Foundation	2800 Sand Hill Road, suite 250, Menlo Park, CA 94025 Burness, Patty 650 854-5560	www.the-ef.org
11. F.B. Heron Foundation	30 Rockefeller Plaza, Rm 5600, New York, NY 10112 Wyler, John 212 649-5879	
12. Faithworks	2501 Cedar Springs, suite 200 Dallas, TX 75201 800 611-6501	ww.faithworks.net
13. Great Bay Foundation	1 Monument Way, Portland, ME 04101 Greenleaf, Peter 207 774-2067	
14. John and Mary Markle Foundation	75 Rockefeller Center, suite 1800, New York, NY 10019 Moffett, Julia 212 489-6655	
15. W.K. Kellogg Foundation	1 Michigan Ave East, Battle Creek, MI 49017 Reis, Tom 616 969-2104	www.wkkf.org
16. Mid-Atlantic Venture Funds	125 Goodman Drive, Bethlehem, PA 18015 Beste, Fred 610 865-6550	
17. Milwaukee Foundation	1020 N. Broadway, suite 112, Milwaukee, WI 53202 Marks, Jim 414 272-5805	
18. Mott Foundation	1200 Mott Foundation Building, Flint, MI 48502-1851 Garonzik, Elan 810 238-5651	www.mott.org
19. New Hampshire Charitable Foundation	37 Pleasant St., Concord, NH 03301 Gay, Stuart Comstock 603 225-6641	www.nhcf.org
20. New Profit Inc.	2 Canal Park, Cambridge, MA 02141 Kirsch, Vanessa 617 252-3220	www.newprofit.com
21. New Schools Venture Fund	440 Broadway, Redwood, CA 94063 Smith, Kim 650 556-2342	www.newschools.org

Organization	Address / Name / Telephone	Website
22. New Vantage Partners	402 Maple Ave. West, Vienna, VA. 22180 May, John 703 255-4930	www.newvantagepartners.com
23. New York City Investment Fund	1 Battery Park Plaza, New York, NY 10004 Montoya, David 212 493-7551	www.nycp.org
24. Peninsula Community Foundation	1700 S. El Camino Real, suite 300, San Mateo, CA 94402 Grey, Carol 650 854-5566	www.pcf.org
25. Public/Private Ventures	2005 Market St., # 900, Philadelphia, PA 19103 Eliot, Mark 212 822-2402	www.ppv.org
26. Rand Corporation	1700 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138 Bikson, Tora 310 393-0411 x7227	www.rand.org
27. Roberts Enterprise Foundation	P.O. Box 29266, San Francisco, CA 94129 Emerson, Jed 415 561-6677	www.redf.org
28. Robin Hood Foundation	111 Broadway 19th floor, New York, NY 10006 Smith, Lisa 212 227-6601	www.robinhood.org
29. Silicon Valley Community Ventures	1136 Howard St., San Francisco, CA 94103 Rosenthal, Julie 415 863-4245	www.svcv.org
30. Social Investment Forum	Underdog Ventures 84 Oak St., Brattleboro, VT 05301 Berg, David 802 254-4645	
31. Social Venture Network	P.O. Box 29221, San Francisco, CA 94129-0221 Belcher, Martha 415 561-6501	www.svn.org
32. Social Venture Partners (Seattle)	1601 Second Ave., suite 610, Seattle, WA 98101 Shoemaker, Paul 206 448-0676	www.svpseattle.org
33. Social Venture Partners of Arizona	4455 East Camelback, suite 215A, Phoenix, AZ 85018 Savage, Lois 602 840-4800 x 20	
34. Stanford University Graduate School of Business	350 Memorial Way, Stanford, CA 94305-5015 Dees, James Gregory 650 725-9776	
35. Tides Center	P.O. Box 29907, San Francisco, CA 91429-0907 Madora, Dahnesh 415 561-6300	www.tides.org
36. Triangle Community Foundation	P.O. Box 12834, Research Triangle Park, NC 27709 St. John, Shannon 919 549-9840 x128	
37. Mayfield Fund	2800 Sand Hill Road, Menlo Park, CA 94025 Fong, Kevin 650 854-5560	
38. Community Foundation of Greater New Haven	The New Haven Foundation Building, 70 Audobon Street, New Haven, CT 06510 Hadley, Nancy 203 777-2386	
39. Hauser Center for Nonprofits	79 JFK St., Cambridge, MA 02138 Letts, Chris 617 495-1451	
40. Surdna Foundation	330 Madison Ave Fl 30, New York, NY 10017 Skloot, Ed 212 557-0010	
41. Harvard Business School	441 Morgan Hall , Soldiers Field, Boston, MA 02163 Grossman, Alan 617 496-8178	
42. Boston Foundation	1 Boston Place, 24th Floor, Boston, MA 02108 Bermudez, Angel 617 723-7415	www.tbf.org
43. Harvard Business School	441 Morgan Hall, Soldiers Field, Boston, MA 02163 Porter, Michael 617 495-5000	

Appendix 2: Research Methodology

Our research methodology involved contacting those people most heavily involved in the social venture capital field and synthesizing their responses into a report. Research proceeded as follows:

1. We first compiled a list of contact names through various sources, including those for the Letts et al. article, and networked on further contact possibilities.

2. We contacted those from our list and sent them a questionnaire (see below) regarding the field of venture philanthropy.

3. We then spoke with contacts on the phone. Upon completion of the conversation, a summary was entered into a general matrix.

4. Contacts received a fact-check summary regarding their fund's activities and were provided the opportunity to edit comments prior to printing.

Text of Sample Questionnaire

Community Wealth Ventures is conducting a research study on behalf of the Morino Institute in Reston, VA, to explore possible models for a social venture fund. Specifically, the Morino Institute is considering the creation of a technology-oriented donor fund and is curious to learn what models exist for such an enterprise.

The following is a list of questions designed to map the landscape of social venture capital funds. I am very interested in exploring "social venture" funds specifically, in contrast to social responsive mutual funds (i.e., Calvert Group) or foundations that support social entrepreneurs.

Working definition of social venture fund: a multi-donor fund specifically created to address social issues that employs venture capital practices, including organizational and financial assistance.

General Questions

A. How many funds do you know of that are in existence?

B. Are there funds which come close in purpose and structure to Professor Christine Letts's model on the application of venture capital practices to philanthropy?

C. Where does your fund fall on the venture capital continuum?

D. What is the total amount of money collected in your fund?

E. How many investors are involved?

F. How many grant recipients are involved?

G. What are the ranges for size of grants?

H. In addition to Social Venture Partners, are there funds that target technology to address social issues?

Operations and Metrics

A. Upon what criteria does your fund make investments?

B. How are returns calculated?

C. How many investments are made?

D. Who operates your fund day-to-day?

E. Does the fund receive non-cash contributions?

F. What affiliation does the fund have with other funds, if any?

Management

A. Who are the principal investors?

B. What is the level of involvement in the fund of principal investors?

C. Do volunteers "add value" to the strategic aspect of the organization, i.e., gain new partnerships, expand markets, etc.

D. What is the legal structure of the fund?

E. What is your organization's exit strategy?

Appendix 3: List of Abbreviations used in document

Reference	Abbreviation
Center for Venture Philanthropy	CVP
Entrepreneurs Foundation	EF
Financial Return on Investment	FROI
Joint Venture: Silicon Valley	JVSV
National Center for Social Entrepreneurs	NCSE
Memorandum of Understanding	MOU
New Schools Venture Fund	NSVF
Roberts Enterprise Development Foundation	REDF
Robin Hood Foundation	RHF
Social Return on Investment	SROI
Social Venture Fund	SVF
Social Venture Partners	SVP
Venture Capital	VC

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