

# **VESPER SOCIETY**

***Venture 21:  
Human Service Organizations  
Assessing Venture Philanthropy***

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## **I. EXECUTIVE SUMMARY**

### **The Changing Landscape of Philanthropy**

A sea change in philanthropic giving, an unprecedented creation of wealth in the New Economy, and in 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.<sup>1</sup>

The convergence of these monetary and management forces is changing the landscape of philanthropic giving by altering the fundamental principles and practices of donors and foundations. Increasingly, traditional project oriented grants are being infused or reinvented with the values and strategies that draw upon the most successful practices of today's business world.

At its core venture philanthropy seeks to obtain greater return, both social and financial, from nonprofit organizations.<sup>2</sup>

*Venture philanthropy seeks greater return, social and financial, for nonprofits.*

### **Need**

Preliminary investigation indicates that there is an information gap about venture philanthropy methods, opportunities, and risks among human service organizations; and a culture gap between venture philanthropy donors and human service providers.

### **Opportunity**

In response to the changing environment of philanthropy, Vesper Society envisioned an opportunity to serve the interests of its faith-based human service constituents. Vesper's leadership role as a catalyst and convener brings key people together for in-depth

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<sup>1</sup> Morino Institute, *Venture Philanthropy: Landscape and Expectations*, a report prepared by Community Wealth Ventures, 2000, [www.youthsocialventures.org](http://www.youthsocialventures.org).

<sup>2</sup> Ibid.

dialogue and problem solving on current issues of critical moral, ethical, social, and economic importance. We support these efforts by creating new learning opportunities through research, materials, dialogue, and training. Vesper Society "adds value" by facilitating the flow of knowledge, views, and experience between distinct sectors and helps to set the agenda for further education and program development.

Venture philanthropy is a new and unfamiliar concept. The human service sector lacks knowledge and know-how about its principles and practices. On the other hand, human service is often a low priority for the new practitioners of venture philanthropy. A "cross-cultural" mix of venture philanthropy strategies and human service expertise represents a unique opportunity for Vesper Society to serve leaders of both sectors by bringing together a new community for reciprocal learning, benefiting, and cooperating to address common social needs.

### **Project Purpose and Goals**

To bridge the information gap, Vesper Society has initiated a research project investigating venture philanthropy for faith-based human service organizations. Our overall goal is to gather information about what is known, draw indications about what is not known, and determine the content that would be of benefit to both human service nonprofits and venture philanthropy foundations. The results of our findings are groundbreaking and invaluable because they help build more skillful partners and better communication links between the two sectors. Accessing venture philanthropy requires new approaches and training that Vesper is uniquely positioned to provide.

The purpose of our project is, (a) to serve as a convener of faith-based human service organizations and foundations using venture philanthropy practices, and (b) to be a catalyst in educating leaders of human service nonprofits in understanding and responding to venture philanthropy methods.

The goals of our research are, (a) to describe the nature and extent of familiarity with venture philanthropy among faith-based human service organizations in the San Francisco Bay Area, and (b) to establish communication links between foundations using venture philanthropy methods and leaders of human service organizations.

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## Methodology

Our process included:

1. Identifying the principles of venture philanthropy that are important for human service organizations. Venture philanthropy is funding that addresses social issues through applying venture capital practices to nonprofits, including organizational and financial investment.
2. Reviewing the literature to capture the substantive research publications and relevant articles on venture philanthropy. Two groundwork documents are: *Virtuous Capital: What Nonprofits can Learn from Venture Capital*, and *The Roberts Enterprise Development Fund: Implementing a Social Venture Capital Approach to Philanthropy*. (See Appendix A.)
3. Recruiting an Advisory Council to give advice and feedback. Four advisors from a venture philanthropy foundation, a traditional foundation, a faith-based human service nonprofit, and a non-sectarian nonprofit agreed to participate in reviewing the project design, reports, and dialogue among the two sectors.
4. Conducting information interviews using standardized questionnaires with a sample cross-section of sixteen directors or development officers of human service organizations.
5. Conducting information interviews using standardized questionnaires with a sample cross-section of six directors or administrators of foundations that directly or indirectly applies venture philanthropy methods.

*What is important to human service nonprofits?*

## Results of Interviews with Human Service Organizations

Information and data from the human service organization interviews were compiled into numeric tables (section VII.) and narrative reports.

Findings confirmed the existence of an information gap. Seventy-five percent have had no contact with venture philanthropy, while 33% have no familiarity. Moreover, only one-third of those organizations

*Information*

that know about venture philanthropy are able to identify at least one of the six basic principles of the venture philanthropy approach:

1. Targeted as opposed to generalist approach to funding
2. Multi-year funding
3. Attention to organizational capacity building
4. Outcomes, or social return on investment (SROI)
5. Engagement between the foundation and service program
6. Awareness and pursuit of appropriate exit strategies

Most participants have received grants from foundations and acknowledge difficulty with regard to short-term funding, repetitious application, being tied to projects rather than infrastructure, and the drain of limited resources (i.e., time) in grant administration. All of these are remedial concerns of venture philanthropy.

Sixty-six percent of the health service organizations interviewed are interested in pursuing venture philanthropy, while 33% are cautious about the fit for their organization. All are clear in the need for further education.

During the course of the study, special concern about outcomes and measurement (social return on investment or SROI) surfaced as a dilemma for the nonprofits. This skill is critical in the evaluation of organizational progress and performance. All agree that measuring outcomes helps them reach their values and objectives, but there are inherent difficulties in evaluating quantitative and qualitative results when it comes to providing human services.

### **Conclusions Drawn from Interviews with Organizations**

Our study reveals four distinct findings:

1. There is an information gap among human service nonprofits. There is need for education and training.
2. There is a dilemma around the definition, appropriate use and benefit of measuring SROI. There is need for information, development, and training.



***Training***

3. Since there are cautions and risks associated with venture philanthropy, there is a need to assess organizational criteria and readiness for using this source of funding.
4. There are new opportunities for reciprocal learning about the practices of venture philanthropy. Both human service organizations and foundations will benefit by sharing their unique perspectives.

***Risk  
Management***

**Results of Interviews with Venture Philanthropy Foundations**

Among the venture philanthropy foundations we interviewed, there are four representative model approaches to venture philanthropy. All agree venture philanthropy is a new and fluid concept.

**Model A: Donor Managed Support.** Foundations that manage internal donor organizations that apply venture philanthropy principles and practices with nonprofits.

**Model B: Managing Partner.** Foundations that function directly as venture philanthropy organizations with nonprofits.

**Model C: Traditional Philanthropy.** Foundations practicing classic methods, but applying limited venture philanthropy practices without using venture philanthropy terminology.

**Model D: Corporate Philanthropy.** Corporate foundations with a corporate focus using one or two venture philanthropy principles through in-kind product or monetary grants.

## II. BACKGROUND

Venture philanthropy is an emerging movement in the United States. This new approach to philanthropy takes lessons learned in the venture capital and entrepreneurial business markets and applies those strategies to philanthropic activity. It is a social commitment to assist nonprofit leaders in planning, managing and financing their human service programs in order to improve the effective delivery of their strategies in the pursuit of providing community service and social justice.

Venture philanthropy is often driven by strong leaders with bold ideas who have created significant wealth and are now turning their attention to social issues. This is motivated by the awareness that even in our longest period of sustained economic growth the US is still confronted with the reality that for many Americans prosperity is not just around the corner, but rather in a completely different community of which they are not a part.<sup>3</sup>

Although still an emerging practice, venture philanthropy has focused on selected community issues, for example, education, or the performing arts. For the most part, venture philanthropy has not yet expanded to address the full range of community programs such as services for families in poverty, the chronically mentally ill, or persons with long-term disabilities. Faith-based organizations often offer a broad range of human service programs, ranging from education and training to programs for the most underserved. Venture philanthropy principles appear to be relevant for all these programs, including those provided by organizations serving the larger community.

As such, venture philanthropy is a new concept that challenges the traditional funding approaches of both human service organizations and foundations. It makes new demands on leaders of both sectors to

*Venture philanthropy is about improving management practices.*

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<sup>3</sup> Jed Emerson, *The U.S. Nonprofit Capital Market: An Introductory Overview of Developmental States, Investors and Funding Instruments*, The Roberts Enterprise Development Fund, Fall 1998, pg. 4.

work together to adjust to the entrepreneurial venture capital methods of addressing social issues.

The principles of venture philanthropy are beginning to attract the attention of human service providers, including faith-based groups that are eligible for funds from foundations using venture philanthropy methods. However, leaders of the human service programs have limited understanding of what venture philanthropy is, what it means for their organizations, or how to position themselves to respond to this source of funding. Furthermore, there is presently no concise source of information providing answers to these questions or a way for leaders to obtain training regarding venture philanthropy principles. Human service leaders are looking for information and training on how to determine whether this is right for them, and if it is, how to prepare their organizations to respond to venture philanthropy tenets.

The purpose of the Venture 21 Project is for Vesper Society to bridge the information gap by, (a) serving as a convener of nonprofit human service organizations and foundations engaged in venture philanthropy practices in order to develop common understanding, and (b) being a catalyst in educating and training leaders of nonprofit human service organizations to respond to the emerging venture philanthropic methods.

Faith-based organizations that provide human service programs can be leaders in implementing the emerging venture philanthropy model. The concepts supporting venture philanthropy (e.g., long-term commitment, development of the organization's and individual's full potential, careful use of resources, and concern with eventual outcomes) are consistent with the historic principles of stewardship that have undergirded faith-based communities.

### **Need**

The radically altered political, funding, and economic environments of the new century are compelling human service leaders, including those operating faith-based organizations, to reinvent their funding strategies. In the United States, government overhaul of the social welfare system dramatically decreased up-front traditional funding. At the same time, the effectiveness of funding for social programs by

*Faith-based  
human service  
is about  
stewardship.*

foundations and other private sources has undergone extensive review.

Shrinking public sector support and the changing landscape of traditional private sector funding has led to increased competition for resources among the 1,140,000 independent sector organizations (nonprofit charities, social welfare organizations, health and human services, religious organizations, and educational institutions) in the United States, as well as some 26,000 organizations in other countries around the world.

The increased need for charitable capital expressed by independent sector leaders is especially notable in human service nonprofits. In the past, faith-based organizations relied heavily on classic or traditional funding that came from individual donors, family foundations, private or community foundations, government contracts and denominations. Today, classic funding patterns can no longer be assumed.

In addition, there are many more nonprofit organizations seeking funding. An increasing number of new start-up nonprofits are aggressively soliciting support of their programs. The result is that traditional resources are spread across a larger number of organizations. Human service leaders are challenged to understand this changing environment, and must learn how to respond to the new strategies for funding their programs.

### **Definition**

Venture philanthropy may be defined as funding that addresses social issues through applying venture capital practices to nonprofits, including organizational and financial investment. The drivers are innovation, organizational efficiency, sustainability, scale and social results. Its priorities focus more on how efficiently the organization is run than on what services are provided. Its methods include multi-year commitment, capacity building, attention to measurable outcomes (SROI), engagement with management of the service organization, nonprofit enterprise development, and an exit strategy for disengagement once the project is completed. Foundations that fund human service organizations are increasingly applying these venture philanthropy principles to their funding decisions.

*Values and  
principles of  
venture  
philanthropy.*

The following, in sequential order, are six basic components of the venture philanthropy approach:

- ***Targeted as opposed to generalist approach to funding***

Venture philanthropy identifies key social issues and invests in a limited number of well-managed, effective organizations in those areas.

- ***Multi-year funding***

Unlike traditional funding that gives short-term grants (one to two years) at the beginning of a project, venture philanthropy makes a long-term investment (three to ten years) in the planning and launching of innovative or renovated programs.

- ***Attention to organizational capacity building***

Venture philanthropy supports development of management resources as well as direct service activities. As experience in the corporate world has shown, the human service organization and its infrastructure need to be stable so that it can support direct service programs over the long term. Achieving efficiency through improved managed practices and sustainability through innovative non-profit enterprises is a keen interest of venture philanthropy.

- ***Outcomes, or Social Return on Investment (SROI)***

Venture philanthropy monitors outcomes through a project's life by measuring results in terms of social return on investment (quantitative and qualitative program outcomes). By contrast, venture capitalism measures outcomes in terms of financial return on investment (FROI). (See diagram, page 11.)

- ***Engagement between the foundation and human service program***

It takes time to see results in human service programs; therefore, to achieve efficiency, sustainability and scale venture philanthropy engages organizations over the long term (up to ten years). During that time, representatives of the venture philanthropy group work closely with human service

management, often helping with strategic planning and building infrastructure.

- ***Awareness and pursuit of appropriate exit strategies***

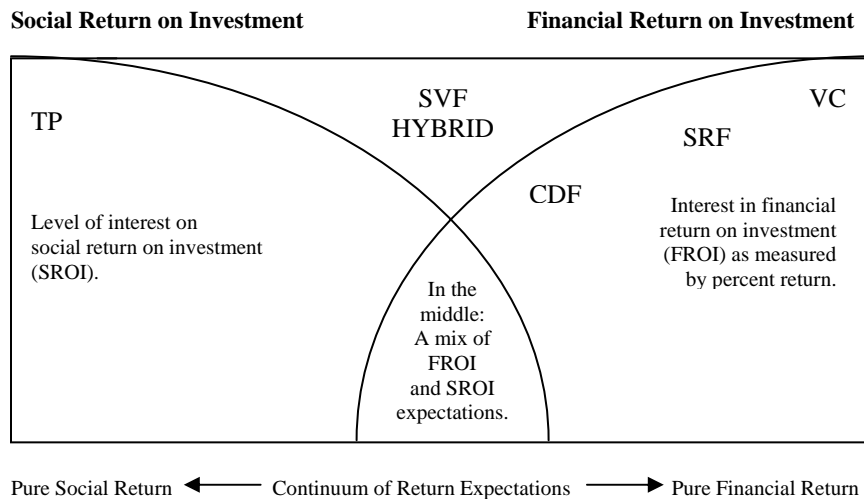
Venture philanthropy prepares an organization for ongoing effective functioning and funding after a specific project ends.

(Source: The Roberts Enterprise Development Fund)<sup>4</sup>

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<sup>4</sup> Jed Emerson, *The U.S. Nonprofit Capital Market: An Introductory Overview of Developmental States, Investors and Funding Instruments*, The Roberts Enterprise Development Fund, Fall 1998, pg. 23.

The contrasting range of funding approaches between traditional philanthropy, venture philanthropy (SROI), and venture capital (FROI) is illustrated in the following diagram. Venture philanthropy is a hybrid of the best business and nonprofit practices.



- ◆ TP Traditional Philanthropy
- ◆ SVF Social venture funds: philanthropies that use Venture techniques, expecting social returns exclusively.
- ◆ Hybrid Point where financial returns and social returns intersect, which includes venture funds that expect both SROI and FROI returns.
- ◆ CDF Community development funds: socially minded venture capital funds that seek FROI.
- ◆ SRF Socially responsive FROI funds.
- ◆ VC Traditional venture capital.

(Source: Youth Social Ventures, Morino Institute)<sup>5</sup>

Since venture philanthropy is a relatively new model, it is still developing and lacks consistent definition. Some view venture philanthropy as entrepreneurs who donate pre-initial public offering (IPO) stock to a favorite project. A more comprehensive notion of venture philanthropy adopted by several foundations includes a "hands on" commitments to support efficient management, set realistic project plans, and identify measurable outcomes.

<sup>5</sup> The Morino Institute, *Venture Philanthropy: Landscape and Expectations*, a report prepared by Community Wealth Ventures, 2000, [www.youthsocialventures.org](http://www.youthsocialventures.org)

### III. METHODOLOGY

The current research is based on a methodology combining a series of primary and secondary research techniques. An initial step was to conduct secondary or background research to identify existing information regarding venture philanthropy and human service programs. A literature review was initiated with two main goals: (1) to identify research and articles that are key in the field, and (2) to define the types of issues being discussed in the literature.

#### Review of the Literature

Although the topic of venture philanthropy is new, we quickly learned that the number of articles is not small. Indeed, venture philanthropy has attracted a good deal of attention. As a result, the literature review identified a large number of articles and stories. As the review unfolded, it became apparent that while there are many articles on venture philanthropy, the number of substantive research publications is relatively small.

There were a few publications that are well known among leaders in the field. Two key papers are “Virtuous Capital: What Foundations Can Learn from Venture Capital” (Letts, Ryan & Grossman, Harvard Business Review, 1997) and *The Roberts Enterprise Development Fund: Implementing a Social Venture Capital Approach to Philanthropy* (Emerson, Stanford University, 1998). A challenge to these two articles can be found in “If Pigs Had Wings” (Sievers, Foundation News & Commentary, 1997). A listing of publications that served as key documents for the present project is found in the Appendix.

#### Advisory Council

Four representative advisors were recruited to help guide and give feedback on the design, implementation and results of the study. All agreed to participate. One came from a community foundation practicing venture philanthropy, one from a traditional foundation focused on health issues, one from a faith-based human service organization, and one from a non-sectarian human service organization.

*There is more information on what it is than how it works.*

Their initial commitment involved a one-hour information interview based on reading the Vesper Society document, "Assessing Venture Philanthropy for Faith-Based Human Service Organizations" and Vesper Society background materials; a one-hour Advisory Council feedback session on the "Venture 21 Report" and "Dialogue" design plan between the human service nonprofits and foundations participating in the study; participation in the half-day Dialogue event; and further future feedback.

The Advisory Council's expertise includes: working with faith-based values and organizations, managing and directing large and small health and human service nonprofits, nonprofit consulting, grant making and grant writing, goals and measurement reporting (quantitative and qualitative), traditional and venture philanthropy, fundraising, operating nonprofit enterprise, and partnering with funding agencies.

### **Information Interviews**

The main research technique used in the project was information interviews of two target groups. The first set of interviews involved non-profit organizations providing services in the community. The second set of interviews targeted foundations that were knowledgeable about venture philanthropy techniques.

Structured questionnaires were used to guide the information interviews. A comprehensive list of topics identified in the literature review was used as the basis for developing two interview forms, one for service organizations and one for foundations. Although the questions were designed for the specific respondent group, the interview forms were similar in that they addressed common topics.

Structured interviews with service organizations covered general data about the organization, their prior knowledge of venture philanthropy, and their experience with venture philanthropy. Structured interviews with foundations included data about the foundation, experience with venture philanthropy, views on venture philanthropy principles, views on faith-based human service organizations, and future implications.

*One hundred percent of sampled human service organizations and foundations agreed to participate in our research.*

We were able to compare and contrast perspectives by asking both groups many of the same questions. This information was also helpful in preparing for dialogue between the two groups.

While the structured interview forms guided every session, the interview did not rely solely on answers to these questions. If the respondent mentioned a topic that was relevant to the research question, the interviewer pursued that issue. In all cases, notes were made of the interviews and transcribed immediately upon completion of the interview session. Transcripts were sent to the respondents for their review, and to ensure that any quoted remarks accurately reflected the respondent's intent.

Most interviews were conducted with the executive director of the human service organization or the foundation. In cases where the executive director was unavailable, the interview was conducted with the director of development or a comparable person in the human service organization. In foundations, it was the person most involved with venture philanthropy principles. The interviews generally lasted an hour. In all cases, the interviews were conducted at the offices of the local organization or foundation.

Interviews focused on the local community, specifically, organizations and foundations located in Santa Clara, San Mateo and San Francisco Counties. This geographic area is one of the hubs for development of venture philanthropy and many of the leading proponents are readily available. A second reason was pragmatic. Since this was a preliminary research activity, it was important to keep it bounded in order to address the basic questions.

### **Sample: Human Service Organizations**

A representative sample of 16 non-profit human service organizations was identified for the first set of interviews. Since the main interest of the project is faith-based human service organizations, the sampling approach concentrated on these organizations. A faith-based human service organization is defined as an organization that is affiliated with a church, denomination or values-based group, and that provides human or social services to the community.

Our first choice was to involve organizations affiliated with a faith-based entity. However, as word of the project became known, human service organizations with no formal relationship to faith-based agencies asked to be included in the project on the basis that they too were non-profits and offered services to the community. They were included, primarily for comparison purposes.

Initial contact was made by telephone, followed immediately with a letter and brochure explaining the project. Follow-up telephone calls were made to describe the project in more detail, and to request an interview with the executive director. Of the 16 organizations contacted, all agreed to participate in the interviews and in the project.

While most organizations interviewed provide a broad range of services to the community, they can be categorized by the following primary programs: Four provide basic services to adults and families living in extreme poverty; three provide emergency assistance; two work with youth; two are health-based services; two are involved with community development; one provides shelters for the homeless; and one provides a range of administrative services to other non-profits. (See Table 1, section VII.)

Almost all of the organizations (80%) offer education and training services, while over half (53%) also provide counseling to their clients. Nearly half (46%) offer direct services in the form of housing and/or community centers. A somewhat smaller number provided other support services (40%) or advocacy (20%). (See Table 2.)

### **Sample: Foundations Knowledgeable about Venture Philanthropy**

The second set of interviews involved foundations that are knowledgeable about venture philanthropy techniques. It is important to note that these were interviews of representative foundations, rather than individual philanthropists. Our rationale is to focus on public information that is readily available to human service organizations rather than the specifics of various private practices.

Another important factor is that the interviews were directed toward foundations that are knowledgeable about venture philanthropy, some that are supportive of venture philanthropy, and some that are less

enthusiastic. As discussed previously, not all organizations will choose to pursue this approach, and not all foundations are ready to define themselves as supporting venture philanthropy.

We identified and contacted six foundations knowledgeable about venture philanthropy. All agreed to participate in the interviews and in the project. Since the sample is small, one must be cautious about generalizing from this data.

**IV. RESULTS: HUMAN SERVICE ORGANIZATIONS****Awareness of Venture Philanthropy**

Nearly three-quarters of the human service organizations interviewed in the San Francisco Bay Area have had no contact with venture philanthropy funding (Table 3). One-third of service organizations interviewed have never heard of it (Table 4), yet when the concept is defined, there is enthusiasm:

No one really knows what venture philanthropy means, but anything that has to do with venture must be for us.

Perhaps the most common misperception was that venture philanthropy "must have something to do with a venture capitalist."

Those agencies that have heard of venture philanthropy first learned about it from general information sources, such as the newspaper or the Internet, or from sidebars at professional associations and workshops (Table 5).

Of those human service organizations that have heard of venture philanthropy, 40% think of it primarily as a means to get funding, including seed funding (Table 6). Twenty percent know what a venture capitalist is, but can not describe venture philanthropy. About one-third can identify at least one characteristic of venture philanthropy or know about foundations that operate using some of the same principles as venture philanthropy.

Nearly all service organizations have had previous contact and received funding from foundations (91%) -- whether or not the foundations used any of the same principles espoused by venture philanthropy funders (Table 7).

Human service organizations describe their experience with foundations as a difficult process resulting in short-term funding that is tied to specific projects. When asked about their experience in receiving grants, the most common response was that foundation

*The most common misperception: "It's a venture capitalist."*

grants are short-term, usually one year (Table 8). Directors observe that the annual re-application process requires considerable amounts of time, a scarce resource for most nonprofit organization staff. In addition, foundation grants are generally tied directly to service projects and provide no support to help run the organization. A few agencies also mention problems with outcome measures.

The human service organizations in this research are interested in current information, and are organizations that determine their own course of action. When asked if they would be interested in pursuing funding from a foundation using venture philanthropy strategies, nearly two-thirds were interested (Table 9). One-third were more restrained in their response. While all were clear in their interest to obtain more information concerning venture philanthropy, a substantial minority expressed reservations as to whether this new approach would be appropriate for their organizations.

***The most common difficulty: Short-term, project oriented grants.***

### **Venture Philanthropy Principles**

The principles of venture philanthropy are a main focus of the current research. During the course of the interviews, human service organizations discussed many of the basic principles. The principles discussed most often are ranked below (from most frequently to least):

- Institutional capacity building
- Outcomes including SROI
- Engagement with the philanthropic foundation
- Nature of the financial investment
- Multi-year funding

***Institutional capacity building.*** One of the chief principles of venture philanthropy is that human service organizations need support to develop the capabilities (efficiency, sustainability, scale) of the organization itself. This includes management training, strategic planning, training for staff, recruiting and training volunteers, if appropriate, and establishing links with the community. It also

involves bricks and mortar infrastructure issues, including technology, facilities, equipment, transportation, and the like.

Service organizations were quick to point out their need for such capacity building. In fact, they mentioned this more than any other venture philanthropy principle. As an example, Bay Area Health Ministries explained that they received a grant for capacity building and that they used the funds for training on grant writing.

**Outcomes including SROI.** Outcomes of human service programs are a “puzzlement.” Nearly three-quarters of the organizations had never heard of SROI or were only somewhat familiar with the term (Table 10). However, after hearing an explanation about SROI, almost the same number said it was feasible for them to measure outcomes (Table 11).

Service agencies agree that outcomes are important and that outcomes should be measured. But the question that stumps many organizations is how to measure outcomes in an appropriate – and ethical – manner. Human service organizations have concerns about quantitative and qualitative results when it comes to measuring human programs. As InnVision, an agency working to break the cycle of poverty and homelessness states,

...we are willing to be accountable. We are goal and results oriented. We have no barriers to measurable outcomes. We see outcomes as “value added.” As long as the grantors do not expect too much in too short a time.

One puzzling issue is that of definition. What constitutes outcomes? What is an appropriate outcome for a program serving marginalized persons living in extreme poverty? The mission of the Society of St. Vincent de Paul is to serve those in need by providing emergency assistance and thrift stores as well as a broad range of training and vocational programs. As they observe,

The marginalized are not a glamorous target. Their needs don’t attract those who are interested in reducing

*Measuring results is a dilemma for human service nonprofits.*

the digital divide. When you are providing programs for the marginalized, outcomes are difficult to measure.

One outcome of this service organization is simply to be there when needed.

A second issue is how to measure outcomes. This question perplexes virtually all human service organizations. The Society of St. Vincent de Paul explains:

The outcomes and results required by venture philanthropy are serious obstacles since they are difficult to measure. Outcomes are fine with widgets, but working with 70,000 marginalized people is more ambiguous. The faces of the poor are always changing. At one time, an outcome might be the number of people who are working. But now the number of working poor is rising dramatically because employment is easy to obtain but not a living wage. A large percentage is not making it. So measuring outcomes by the number working does not fit.

Episcopal Charities mission is to make a crucial difference in the lives of the poor, oppressed, and endangered individuals in need in the Bay Area. The goals and hoped for outcomes of their services are quality of life issues around care and dignity; however, “Outcome measures like how great or happy it makes people are much more difficult to measure.”

The San Jose Children’s Musical Theater serves a different constituency but grapples with the same question.

Measurable outcomes are the bane of a nonprofit’s existence. What do “measurable outcomes” really mean? One way is to determine numerical indicators such as - How many meals were served? - How many kids or families were helped? - What demographics

were affected? - But what do such “outcomes” say about a musical theater piece?

It’s one thing to track how many kids were involved in a performance, but what qualities were important? Feeding 40,000 people is very different from 40,000 people watching a Children’s Musical Theater performance for free. How do you really measure the impact of social service agencies that provide free performances to families that have never experienced the arts?

Several of the service organizations had given considerable thought to the philosophical or ethical question of what constitutes appropriate outcomes. The executive director of Jewish Family Services summarized some of these questions:

What is an appropriate measure? - Who is the model? - How do you measure return on happiness or quality of life? - There are statistics such as the divorce rate that might be “easier,” but what is really being measured? - Does that really reflect the consequences of what WE do? Every funder needs assurances that their funds are being used correctly. But what is legitimate? Nonprofits can invent outcome measures and make their programs look good. But is that the honest way?

A third issue faced by human service organizations regarding outcomes is: How much effort will it take and is it worth it? One third of the participants said SROI could only be done with difficulty or not at all (Table 11). Service organizations are usually understaffed and none that participated in this project had sufficient evaluation staff. In fact, most had no staff with training in evaluation or outcome measurement. According to the Society of St. Vincent de Paul, “a large grant that requires measurable outcomes may represent more work than it is worth.”

One agency that provides services to the mentally disabled, chronically alcoholic, homeless mothers with children, and former inmates is struggling. The executive director stated,

Outcome measurement would require follow-up care to monitor the cases. This would increase the cost of running the programs. We can't ask present staff to add that. They are already overwhelmed. We have reached our limits and need to go to the next level, but we don't have the resources.

Lutheran Social Services (LSS) of Northern California provides services to homeless people with AIDS, as well as offering a full range of human service programs. Their executive director points out another common situation:

Nonprofits face unique funding factors not found in the business world. The move from transitional housing to permanent housing can be measured, as can helping homeless people with AIDS adopt health and drug regimens, or following check pay services. We use MIS [management information system] to follow key indicators that track outcomes for each program. MIS is a good resource for this, but it's labor intensive. How do we sustain funding for it? We can't afford to pay the staff that runs it. As soon as we train someone, they move to a higher paying job offered by for-profit companies.

***Engagement with the philanthropic foundation.*** Venture philanthropy stresses cooperation and engagement between the funding foundation and the human service organization. While agencies frequently mention this collaboration, they do so with some skepticism. As one executive director stated,

What's the substantive difference between venture philanthropy and other traditional forms of funding? Have Silicon Valley venture capitalists merely given it a new label?

***Partnership,  
not  
control***

The executive director of a highly respected service organization stated,

Hands-on involvement with venture philanthropy is one thing, but control is another matter. When we are talking about venture philanthropy, do we mean a recent college graduate with millions of dollars who has only read a book on the subject, or someone with a whole field of experience? - Does it mean “hands on” or “hands in”?

Such skepticism was not universal. One grass-roots organization had received a small grant from a foundation that used venture philanthropy principles.

They provide a contact person for each project. They are much more engaged with us than other funders, even though the grant is small. They provide a feeling of community and a higher level of care for our organization through the technical assistance they give us.

Similarly, Sacred Heart Community Services reported that venture philanthropy was different from other funders in that,

...they were risk takers, understood that lessons learned are not failure, had long-term commitment, were flexible, bred imagination and innovation, and provided leeway. However, ongoing support is still more difficult unless we can demonstrate continuous program improvement.

***Nature of financial investment.*** Most service organizations did not mention any financial aspects of venture philanthropy; however, those that did were quite knowledgeable on the topic. The director of development for Catholic Charities explained venture philanthropy’s principle of “seeking out effective organizations and intentionally directed giving as an investment with the goal of specific results.”

***Multi-year funding.*** Virtually all agencies in the study reflect the experience of InnVision. This agency, whose programs attempt to break the cycle of poverty and homelessness, explained:

It is very hard to get long-term funding. Most grants are limited to one year and under \$50,000. Working to renew the same grants year after year is a waste of time and energy. Yet, if we don't come up with a new start, there won't be any funding.

The YMCA of Santa Clara Valley reported much the same experience.

Grant makers prefer to fund program enhancements rather than sustain ongoing programs. Since grants require annual re-application, we have to resell the same programs over and over again.

**V. RESULTS: VENTURE PHILANTHROPY FOUNDATIONS**

The results presented in this report are based on information interviews with six foundations that are knowledgeable about venture philanthropy. Some of these foundations support venture philanthropy and base their programs on venture philanthropy principles. Other foundations are familiar with venture philanthropy but have decided not to engage in venture philanthropy themselves.

**Foundations Agree**

Venture philanthropy is a new concept and one still under development. It was initially described in 1996 and first applied by a few foundations in 1998. As a result, all participants agree that its definition and meaning is still developing. Even those foundations that characterize themselves as venture philanthropy foundations express the following concerns:

This is a learning process. Will this work? - Will we be able to keep a venture focus? - How compatible will venture philanthropy foundations be with nonprofit organizations? - Is venture philanthropy only a blip on the screen?

**Venture Philanthropy Principles**

The present research is based on venture philanthropy principles as described previously on pages 9-10. It should be noted that while these principles are described as important to venture philanthropy, venture philanthropy foundations are not the only foundations that use them. Indeed, some of these principles are hardly new and some have been employed successfully for years by many foundations and in a variety of program areas.

**Four Models of Venture Philanthropy**

The foundations interviewed had a wide range of responses concerning venture philanthropy. Results of the interviews have been

categorized and summarized into four models, each representing a different response to venture philanthropy.

#### **MODEL A FOUNDATIONS: DONOR MANAGED SUPPORT**

Foundations in the first model, Model A, can be defined as foundations that involve venture philanthropists and base their programs on venture philanthropy principles. These foundations actively reach out to individual donors with the goal of introducing them to philanthropy. Many of the donors are young, familiar with venture capital, have recently made their wealth, and are being introduced to philanthropy for the first time. The foundations devote considerable energy to identifying potential donors, cultivating their interest in philanthropy, and encouraging them to join the foundation or association.

*All foundations  
are not alike.*

The program officer of a social venture fund said that individual donors get involved with more than money,

We utilize the professional acumen of our partners to assist nonprofits in running more effectively as businesses, thus enabling these organizations to better meet the higher level of accountability associated with today's philanthropic investment dollars. We want to partner with nonprofits who are interested in improving their business model of delivering critical services to our community.

Individual donors participating with this foundation agree to contribute both intellectual and financial capital.

What the people involved with these foundations want to do is offer their expertise. They want to consult. But some don't want to consult in the area of what they are now doing. They want to consult in something different. They want a change.

The focus of foundations following this model is generally the local community – “our community.” The current research has not

identified any examples of projects being conducted at a national or international level.

Foundations following Model A state their goal as, “supporting non-profit *organizations* to run more efficiently and effectively.” They do not fund projects, only organizations. They focus on organizational effectiveness to foster positive, sustainable change. As one foundation staff member stated, “Most nonprofits are getting by in the areas of operation and program, but where they really need help is with the organization itself.”

Often these foundations invite proposals from organizations with which they are familiar or they select the nonprofits they want to get to know. In either case, this means that for nonprofits, the process of applying for grants is by invitation only. The chair of the grant committee for a donor managed venture fund said,

In order to apply, the nonprofit would have to have someone let them know which program would be accepting applications and for which target group. The ‘someone’ could be any foundation member who knows the nonprofit. The foundation members can recommend nonprofits that they would like to see apply for a specific grant.

At this point, access appears to be limited to nonprofits that have a direct relationship with a member of the foundation.

Although foundations using this model are interested in organizational effectiveness, many organizations that are nonprofits operate multiple programs. Indeed, some nonprofits operate a comprehensive set of projects across many program areas. Yet, in reviewing grants given to date by venture philanthropy foundations, the organizations appear to be small and operate only one project. In some cases, the organization and the program are one and the same. There are not yet many examples of Model A foundations addressing organizational capacity building issues in large organizations running a comprehensive set of programs.

Although the experience of foundations operating with this model is very limited, it is possible to identify mistakes that the foundations and nonprofits have made. For instance, confusion over what a venture foundation is proposing to offer and how nonprofits should respond. In one such situation, the venture donor wanted a large-scale plan for improving organizational capacity, but the nonprofit provided a project request for technical assistance. They wrongly assumed that strengthening the organization meant adding to their technology. Common mistakes include: being too simplistic by focusing on projects rather than the big picture, or failing to address how the financial and intellectual capital of a venture foundation can improve a nonprofit's organizational efficiency, sustainability, and scalability.

*Communication  
needs to improve  
between both  
sectors.*

#### **MODEL B FOUNDATIONS: MANAGING PARTNER**

Venture philanthropy foundations categorized in this model take a much more active role in working with the nonprofits. These foundations devote their main emphasis to establishing collaborative partnerships. These partnerships may include several existing nonprofits or the partnership may be developed from the ground up as a new entity.

Since the fundamental premise of Model B foundations is partnering, the nonprofit must be prepared for new forms of collaboration. These foundations often function as the “managing partner” in their relationship with the nonprofit. In some cases, the foundation will provide staffing, involvement, and backup expertise. It is rather unlikely that foundations with this approach would be interested in supporting existing programs or existing nonprofits. Rather, the incentive of these foundations appears to be to create new entities that will then deliver new services. A program manager for this type of foundation spoke of this criterion:

The nonprofit has to want something other than just money. They have to be seeking a BHAG (big hairy audacious goal). There needs to be excitement.

Foundations using this venture philanthropy model work with the nonprofit's leadership and intermediary organizations to enable them

to grow in their capacity to fulfill their mission. The nonprofit that participates in this type of program has to have strong leadership with which the foundation can work openly and with trust.

Similar to Model A, the most common errors nonprofits make as viewed by Model B venture philanthropy foundations are: underestimating the importance of developing a connection or relationship with the foundation (i.e., using email only), not presenting a quality business plan, and over simplifying goals.

### **MODEL C FOUNDATIONS: TRADITIONAL PHILANTHROPY**

Foundations categorized in Model C are familiar with venture philanthropy, have considered it carefully, and have decided not to get engaged. “It’s just a new label for those who are already doing it, hopefully well. This is old stuff for people working with good foundations.”

The number of venture philanthropy foundations is still rather small compared to the total number of foundations in the United States. Most foundations operate on traditional patterns and may not be familiar with venture philanthropy. However, a substantial number of foundations are very familiar with venture philanthropy. While these foundations do not characterize themselves as venture philanthropy foundations, they may use limited venture philanthropy principles.

The involvement of people new to venture philanthropy is apparent in the comments of some traditional foundations.

It’s really about foundations working with the new rich to become philanthropic. The term is an adaptation but not anything new.

The new people who are doing this are being characterized as venture philanthropists but it is not anything new that a good foundation isn’t already doing.

One spokesperson was somewhat more optimistic.

It's a useful model, but it's only useful for people coming into philanthropy for the first time, i.e., those who have acquired new wealth in the new economy but don't know anything about philanthropy.

Foundations that studied venture philanthropy and decided not to jump in were asked the reasons for their decision. One reservation mentioned right away was SROI, or more specifically,

...using the "bottom line" as a single test of success. [Venture Capitalism] is very specific in terms of profit. The nonprofit world has a different premise with many different forms of success. Bottom line thinking distorts the push toward measuring success.

It is noteworthy that SROI, or outcomes definition and measurement, was also identified as a major concern by the nonprofits. The nonprofits recognized the importance of measurable outcomes, and while not opposed to the notion, struggled with the reality of trying to define outcomes that were acceptable to the foundations while also being appropriate for their programs. One nonprofit that receives funding from numerous foundations said,

Every nonprofit and foundation measure differently. It's a problem that nonprofits have to fit into a foundation's metrics rather than the other way around. The foundation's metrics may have more to do with the foundation's interests than the nonprofit's. The biggest challenge is not to compromise because of the dangling carrot.

According to a Model B venture philanthropy foundation interviewed, the real problem is: "Typically, nonprofits don't know how to do research, surveys and goals. What are the real goals?" The same source noted that foundations have problems with metrics too, "Measuring systems and tools can be onerous in size. How can we keep the MOU (Memorandum of Understanding) simple?"

With questions on outcomes being raised by both nonprofits and foundations, it is apparent that further work needs to be done in this area.

Foundations in Model C also question the principle of engagement and the implications for the nonprofits. Specifically, what is the role of donors to venture philanthropy foundations who become involved or engaged by participating on the nonprofit's board of directors? What if the suggestions of a major donor diverge from the primary mission of the organization? Does the nonprofit put itself at risk?

The investor's expertise may be a plus, but steering the ship is a minus. The nonprofit's mission can get stuck in the investor's interests.

The present research encountered one example of such a situation. An agency with a program for youth that had been in existence several years came to the attention of a venture philanthropist. (In this case, the individual was acting on his own, not as part of a venture philanthropy foundation; however, the principles he employed were similar to those used by venture philanthropy foundations.) The philanthropist was looking for "organizations that were committed, proven over time, and directed by leaders that were able to develop a relationship of trust." The philanthropist posed many questions to the local organization regarding its organizational capacity and its scalability, or ability to "bring it to the next level." In addition, he contacted the national office to check out the reputation of the local program and its leadership." He wanted to be assured that his investment would mean something."

In this example, there is no indication of differing positions between the venture philanthropist and the human service agency, but it illustrates the depth to which the donor can get involved. This is something new for nonprofits, especially faith-based organizations. Most nonprofits report to a broadly representative board, usually composed of community representatives. Learning to work effectively with one influential person may be a new challenge for these groups.

Another venture philanthropy principle identified by Model C foundations is definition of a clear exit strategy. They claim that this is something that sounds good, but has yet to be defined.

Venture philanthropy is so young that the foundations haven't had time to define what, specifically, the exit strategy theory is. Do they mean there will be others to pick up after we leave? - Or is it getting some other foundation to move in? - What does it really involve?

The core difference between Model C foundations and those of Models A and B is that,

The essence of mission versus enterprise is different. For instance, "going to scale" is a standard mantra [of venture philanthropy], but for what? The essence of the nonprofit world is finding niches to serve that don't by definition go to scale. Scale moves in the opposite direction.

#### **MODEL D FOUNDATIONS: CORPORATE PHILANTHROPY**

Venture philanthropy as described in Model D is essentially support provided to human service agencies by corporations or corporate foundations. Such corporate foundations may employ one or more principles of venture philanthropy in their overall giving programs.

Most Model D foundations have two types of grant programs. The first is to provide their corporation's products or services at a reduced rate to organizations that qualify. Of all venture philanthropy organizations, these types of programs are the most likely to be national or international in scope. The second is support for programs and organizations that meet geographical guidelines (usually restricted to communities in which the corporation has employees).

#### **Cautions**

The venture philanthropy foundations involved in this study are very aware of concerns that nonprofits might have in working with them.

Indeed, in some ways, the foundations are more candid than the nonprofits in identifying potential issues between the two groups.

It was a foundation staff person who said:

Some nonprofits are concerned about the venture philanthropy foundation's role. There is a fine line between urging an organization to think in a new way where they may be resistant to go, and leading it away from its focus.

Venture philanthropy foundations volunteered several far-reaching concerns, some of which reflect fundamental issues:

What happens when the population being helped is not easy to understand? What do we do then?

Other concerns reflect the relative newness of the movement itself.

What about unintended consequences? What if bad things happen for an organization that weren't planned?

Venture philanthropy as an approach, emerges from the experience of venture capitalists. Venture philanthropists represent only one part of the total philanthropic community, and they may have a limited perspective. However, since their interests are driving this philanthropic activity, their viewpoint has implications for all who rely on philanthropy, and especially organizations providing basic human services. As one foundation cautioned:

Human service projects are not high priority projects because people supporting venture philanthropy foundations do not relate to the needs, circumstances, and people served by these projects. There is a cultural gap between venture philanthropy people and human service providers.

The staff of venture philanthropy foundations is in the middle, between the donors and the nonprofits, and is able to offer some sound observations. Their frequent contact with venture philanthropy donors reflects experiences of all who work with entrepreneurs:

They have a lot of self-interest. Even though they have no experience with nonprofits, they rely largely on their own views.

Foundation staffs also report that a learning process is underway.

Donors to venture philanthropy foundations are learning that they know far less about nonprofits than they imagined. Running a multi-million dollar company is not the same as running a nonprofit. They think they know the way a nonprofit should operate, but this is actually different from what a nonprofit wants and needs. But they are gradually learning that nonprofits have different needs. They are becoming more sensitive to their interests.

## **VI. CONCLUSIONS**

Venture philanthropy poses both opportunities and challenges for human service providers. This is a new model with different expectations and requirements. Leaders of human service organizations want to familiarize themselves with the new approach, consider what it means, and then determine their response.

### **1. INFORMATION GAP**

Leaders of human service organizations are interested in the concept of venture philanthropy and want to know more. They want to know what the venture philanthropy model is, what its principles are, and how to implement them. They need information and training in venture philanthropy in the following areas:

- Ideology
- Principles
- Models in use
- Requirements and steps to gain access
- Skills to measure results
- Guidelines to present a good match
- Ways to make contact
- Mistakes and errors to avoid
- Cautions and risks

***There is a  
need for  
know-how.***

Venture philanthropy is more than a new source of funding. It is a step up to the next organizational level, and it is not for every nonprofit organization. It requires: accurate information; a will to innovate, cooperate and be vulnerable; careful decision-making to determine whether or not to commit limited resources; and a trusted partner - intelligent, open, flexible, committed to making it work for the sake of people whose lives will be changed for the common good. By definition, venture funding requires organizational energy to make changes and take risks in order to reach new social outcomes.

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## 2. NEW SROI METRICS

How can mouths be fed, people housed, and self-esteem be improved without concern for accountability? Indeed, many faith-based organizations believe in stewardship as the effective and efficient use of resources. They want to know "how they are doing" precisely because they want to make progress on what matters to them most.

Hard questions about values and ethics surfaced around measuring the immeasurable. What constitutes outcomes regarding quality of life? When is something worth doing because it is right no matter what the cost? This is especially true for the marginalized and poorest of the poor.

One danger of venture philanthropy's attention to outcomes is that inappropriate performance measures may be applied which can be "punitive, retrospective, and lacking in any ability to readily inform current practices."<sup>6</sup> To avoid this, the best venture philanthropy models work with human service organizations to create operational and social indices that are appropriate and that can be applied over the whole course of the project. All venture philanthropy foundations interviewed placed a high regard on results but not at the expense of a nonprofit's capacity to perform its mission.

***Both human service organizations and foundations need better SROI tools.***

Human service organizations' perspective on measuring outcomes can be beneficial to venture philanthropy as a movement. What measures are appropriate in determining results? - Is counting the number of people served by a program worthwhile? - How can human service organizations develop appropriate profiles for the clients they serve, yet not end up turning clientele away because they do not fit a profile for success?

Human service organizations need information and training in quantitative and qualitative methods of measuring social return on investment (SROI). But measuring the organizational and social effectiveness of human service agencies is hugely difficult. They need measuring instruments that:

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<sup>6</sup> Jed Emerson, *The Roberts Enterprise Development Fund: Implementing a Social Venture Capital Approach to Philanthropy*, Graduate School of Business, Stanford University, 1998, pg., 17.

- Are cost effective
- Innovate rather than standardize
- Promote collaboration with foundations
- Emphasize the qualitative
- Are simple to use
- Add value by indicating what they are doing well, what they need to change, and how they are meeting their vision and values
- Are simple to interpret

### 3. CAUTIONS AND RISKS

Venture philanthropy principles and practices are new and unproven in the nonprofit world. They represent a philosophic and strategic shift from "distanced" and "limited" project funding to an "engaged" and "influencing" partnership with the organization over the longer term. It is very important to understand that venture philanthropy is more interested in how well an organization is run than it is in what is being delivered. That means bottom line management effectiveness. Does the organization get results? Human service organizations need to evaluate its pros and cons carefully. There are limitations.

The cautions and risks associated with venture philanthropy emerge in the form of questions human service organizations must answer for themselves:

- Is innovation and renovation compatible with the organization's programs and services?
- Is the vision and orientation of management and board to drive the organization toward increased capacity building (i.e., efficiency, sustainability, scale)?
- Is the organization's leadership style to engage, cooperate, collaborate, and partner with foundations and other human service providers, including "competitors"?

***Being entrepreneurial is not for everyone, but for some it's the right approach.***

- To what degree will management and board allow the skill and experiential capital of its investor donors to inform or influence its hiring, internal affairs, and decision making?
- Is the organization a learning organization? Is management amenable to assessment? Is it adaptive, flexible, quick to learn, open to risk, change, or failure?
- Is the organization oriented around quantitative and qualitative performance measures?
- Is there potential for a nonprofit enterprise?
- Are the faith-based programs and services nondiscriminatory?

The interests and strategies of venture philanthropy extend beyond any specific program toward internal development of the organization. However, venture foundations do not control nonprofit organizations. But the concept of funding organizations influencing the internal workings of an independent sector organization is not agreeable to everyone (see Limitations in Glossary of Terms). Typically, human service organizations are not oriented around capacity building and performance measures, even if those are socially beneficial results.

Before applying for venture philanthropy funding human service organizations need to:

- Understand the principles and practices of the venture philanthropy partner
- Assess their organizational competencies to innovate, cooperate, and evaluate
- Carefully discern whether venture philanthropy moves them towards or away from their mission and purpose

#### **4. OPPORTUNITIES FOR RECIPROCAL LEARNING**

Human service organizations and venture philanthropy foundations recognize the value that can come from a reciprocal relationship. Results of the present research indicate that both groups would welcome such dialogue. A nonprofit, the Society of St. Vincent de Paul observes,

Mutual conversations between nonprofits and funders, especially venture philanthropy funders, rarely happen, but they need to. Everybody wants his or her money used wisely. Giving to basic human needs is a maturing process for venture philanthropy, but they will get there eventually.

A venture philanthropy foundation, The SV2 Project of the Community Foundation of Silicon Valley, states that one of its objectives is “to provide philanthropic mentors for SV2 partners.”

Fundamental differences between for-profit investment strategies and nonprofit motives can be problematic – and also beneficial. Venture capital investment is about making money, gaining a financial return on investment, not bettering the world. By contrast, the ultimate purpose of most human service programs is to advance the common good and support positive intrinsic values. These goals are not the same. However, the very difference between them raises valuable questions. Does one set of goals conflict with the other? - Are they really so different? - Can each group learn from the other?

Faith-based human service leaders can help venture philanthropy address these questions. As venture philanthropy begins to consider basic issues of social concern, they will come face to face with the values and virtues that drive faith-based nonprofits. The challenge is for the new venture philanthropy to embrace the priorities and values of:

- Compassion
- Faith as a core competency
- Commitment beyond self
- The worth, dignity and responsibilities of the individual
- Tolerance
- Freedom
- Justice
- Aesthetics
- Engaged citizenship
- Volunteerism
- Stewardship
- Service

***There exists a need and opportunity for collegial dialogue.***

Both sectors need opportunity for collegial dialogue. Leaders of venture philanthropy organizations can learn from faith-based leaders how to recognize the impact of values and ethics on outcomes of human service programs. The "cross-cultural" mix of venture capital strategies and human service expertise represents a unique opportunity for leaders of both sectors to come together in a new community of reciprocal learning, benefiting and cooperating to address common social needs.

**VII. TABLES**

Questions and responses to Vesper Society's questionnaire: *Venture Philanthropy for Faith-Based Organizations*.

**TABLE 1**

Question: What is the mission and purpose of your organization?

<b>Description</b>	<b>Count</b>	<b>Percent</b>
Adults and families	4	27%
Emergency assistance	3	20
Youth	2	13
Health	2	13
Community development	2	13
Homeless shelter	1	7
Nonprofit administrative services	1	7

**TABLE 2**

Question: What programs and services do you offer?

<b>Description</b>	<b>Count</b>	<b>As Percent of Sample Group of 15</b>	<b>As Percent of All Services</b>
Education and training	12	80%	27%
Counseling	8	53	18
Housing	7	46	15
Community centers	7	46	15
Support services	6	40	17
Advocacy	3	20	6
Nonprofit administration and Management	1	6	2

**TABLE 3**

Question: Have you had any contact with venture philanthropy as defined below?

*Venture philanthropy is funding that addresses social issues through applying venture capital practices to nonprofits, including organizational and financial investment.*

<b>Contact</b>	<b>Count</b>	<b>Percent</b>
No contact	11	73%
Contact with foundation	3	20
Contact with individual	1	6

**TABLE 4**

Question: Have you heard of venture philanthropy?

<b>Response</b>	<b>Count</b>	<b>Percent</b>
Yes	10	67%
No	5	33

**TABLE 5**

Question: Do you remember how you first heard of venture philanthropy?

<b>Response</b>	<b>Count</b>	<b>Percent</b>
Not asked	6	40%
Publication (newspaper, Internet)	3	20
Workshop, professional association	3	20
Foundation	2	13
Individual	1	7

**TABLE 6**

Question: What comes to mind when you hear the term, “venture philanthropy”?

<b>Response</b>	<b>Count</b>	<b>Percent</b>
As a form of funding only (e.g., non-traditional funding, seed money given)	6	40%
Venture capitalist (individual)	3	20
One or more uses of VP strategies	3	20
Venture philanthropy foundation	2	13
Other	1	7

Note: Responses provided in Tables 7 through 11 represent those who have had no previous contact with venture philanthropy.

**TABLE 7**

Question: Have you ever tried to get funding from a foundation of any type?

<b>Response</b>	<b>Count</b>	<b>Percent</b>
Yes	10	91%
No	1	9

**TABLE 8**

Question: If you have tried to get funding from a foundation, what has been your experience?

<b>Response</b>	<b>As Percent of All Responses</b>
Short-term	29%
With difficulty	24
Annual reapplication	19
Outcomes	14
Tied to projects	14

**TABLE 9**

Question: In light of all the needs of your organization, is venture philanthropy funding something that would be of interest?

<b>Response</b>	<b>Count</b>	<b>Percent</b>
Yes	9	60%
Somewhat	5	33
No	0	0
Not asked	1	7

**TABLE 10**

Question: Have you heard of SROI (Social Return on Investment)?

<b>Response</b>	<b>Count</b>	<b>Percent</b>
No	9	60%
Yes	2	13
Somewhat	2	13
Not asked	2	13

**TABLE 11**

Question: Does SROI sound like something that would be feasible for your program?

<b>Response</b>	<b>Count</b>	<b>Percent</b>
Yes	8	67%
With difficulty	3	25
No	1	8

**VIII. APPENDICES**

A. References

B. Glossary of Terms

C. Project Participants

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**APPENDIX A: REFERENCES**

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**APPENDIX B: GLOSSARY OF TERMS**

**Amount of Funding:** Venture philanthropy is a substantial commitment to provide significant capital and to help raise additional current and follow-on capital. Traditional philanthropy is partial commitment, which provides a small total of the needed capital. In traditional philanthropy grants are front end, foundations do not want to fund a significant majority of an organization's annual budget. Venture philanthropy views the real work as following the grant; the grant is not an end but a vehicle to achieve a larger goal. The grant is an investment strategy to achieve a social return on investment (SROI). Therefore, the amount of money injected into the nonprofit is greater and covers a larger percentage of the nonprofit's budgeted expenses. (Jed Emerson, *The U.S. Nonprofit Capital Market*, Roberts Enterprise Development Fund.)

**Capacity Building:** Venture philanthropy strengthens organizational management, infrastructure and operations in order to successfully achieve the goals integral to its mission. Traditional funding is oriented toward projects rather than asset development.

**Capital Investment:** Charitable investments from individuals, corporations or foundations that though charitable are capital investments of precious resources (facilities, operating equipment, technology, etc.). Venture philanthropy believes these funds should be managed with the same strategic thinking and due diligence as would apply in the for-profit financial and investment communities. (Jed Emerson, *The U.S. Nonprofit Capital Market*.)

**Exit Strategy:** Venture philanthropy approaches the end of funding as part of the strategic plan. The exit strategy is based on a nonprofit successfully bringing in additional investors or other sources of revenue to sustain their efforts in future years. Traditional philanthropy is up front money and does not involve an exit strategy.

**Intersectoral:** The blending of two or more sectors (private, public, independent) working collaboratively and using their resources, inherent perspectives, experience, and management tools to achieve common goals. (Tom Reis, *Unleashing New Resources and Entrepreneurship for the Common Good*.)

**Limitations:** The working relationship between venture philanthropy and nonprofits has many risks and potential for mistakes. Foremost, is a basic power inequality between those who control access to capital and those who desire it for whatever purpose or social good. In the for-profit sector such power among the various players is clearly enunciated. But in the philanthropic context the power dynamics are more subtle and difficult to discern. The power dynamic is always present and may undermine the ability to operate in a true

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partnership. (Jed Emerson, *The Roberts Enterprise Development Fund: Implementing a Social Venture Capital Approach to Philanthropy*.)

**New Profit Sector:** A new sector of the American economy composed of individuals, foundations, corporations, and other entities that straddle both the existing nonprofit and for-profit sectors. (Tom Reis, *Unleashing New Resources and Entrepreneurship for the Common Good*.)

**Nonprofit Enterprise:** A revenue-generating venture run by a nonprofit to create long term sustainability. A revenue-generating venture founded to create jobs or training opportunities for very low-income individuals, while simultaneously operating with reference to the financial bottom line. Nonprofit enterprises are variously known as social purpose businesses, community-based businesses, and community wealth enterprises (Roberts Enterprise Development Fund, *New Social Entrepreneurs*). Nonprofit enterprise is a blurring of the line between for-profit and nonprofit. Faced with rising costs, more competition for fewer donations and grants, and increased rivalry from for-profit companies entering the social sector, nonprofits are turning to the for-profit world to leverage or replace their traditional sources of funding. (Gregory Dees, *Enterprising Nonprofits*.)

**NPO:** Nonprofit organization.

**Risk Management:** Venture philanthropy views their investments as individual components of a larger investment strategy. Each investment is a shared risk between the grantor and grantee. Successes and failures are shared mutually among the two organizations. To manage risk, venture philanthropy calculates risk according to the presence of competent management that can operate an organization successfully and deliver effective execution of strategies. Traditional foundations face little risk when grant making. Grants are viewed as part of a program area and are awarded on an individual basis without respect to added value. There is minimal risk because the process of grant making fulfills the mission of the organization. (Jed Emerson, *The Roberts Enterprise Development Fund*.)

**Social Capital:** Social capital begins with human capital: the development of self-sufficient individuals who are mutually supportive and have the generosity and skills to create the structures, organizations, and resources needed for healthy and equitable communities. Ultimately, the ability of social structures and systems to help people achieve their goals for the common good is perceived as "social capital." (Tom Reis, *Unleashing New Resources and Entrepreneurship for the Common Good*.)

**Social Entrepreneur:** A nonprofit manager with a background in social work or community development and/or for-profit business who pursues a vision of economic development

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through the creation of nonprofit opportunity for those on the margin of the economic or social mainstream. They draw upon the best of thinking in both the business and nonprofit worlds in order to advance their social agenda. They play the role of change agent in the social sector by:

- Relentlessly pursuing opportunities to create and sustain social value.
- Applying innovative approaches in their work and their funding.
- Acting boldly without being constrained by the resources currently in hand.
- Exhibiting a heightened sense of accountability to the various constituencies they serve (communities and investors) for the outcomes they create. (Gregory Dees, *Enterprising Nonprofits*.)

**Socially Responsible Business:** The practice of integrating ethical behavior and proactive positive concern and action for the public good by private sector entities whose main purpose is the creation of enterprise and profit. (Gregory Dees, *Enterprising Nonprofits*.)

**Social Return on Investment:** Tracking the outcomes, results, or social impact of philanthropic investment. Using quantitative and qualitative instruments to document effectiveness. SROI is rooted in sound investment logic. A dollar invested in the social mission of a nonprofit generates both economic and social return in excess of the initial, isolated value of the dollar. To date, the field has not developed a cogent, well structured framework for measuring these social and financial impacts. SROI is a difficult comprehensive process of assessing and analyzing the social costs, the capital structure issues, and the social impact of a funded organization. (Jed Emerson, *The Roberts Enterprise Development Fund*.)

**Venture Capital:** Builds an investment model for innovative ideas and capable organizations to get them to market. (Tom Reiss, *Unleashing New Resources and Entrepreneurship for the Common Good*.)

**Venture Philanthropy:** The philanthropic application of venture capital principles and practices to address social issues. Venture capital principles include: a limited portfolio of investments; multi-year commitment; capacity building in terms of organizational management, financial management, board leadership, revenue development (including for-profit enterprises), marketing and communication; use of measurable outcomes to improve practices (SROI); technology application; and exit strategies. Venture philanthropy is often driven by strong leaders with bold ideas who have created significant wealth and are now turning their attention to social issues. This is motivated by the awareness that even in our longest period of sustained economic growth the US is still confronted with the reality that for many Americans prosperity is not just around the

corner, but rather in a completely different community of which they are not a part. In this regard venture philanthropy is the strategic use of philanthropic capital in the pursuit of charitable goals. Consequently, increasing questions arise around effectiveness; thereby, giving greater attention to strategic philanthropy based on outcomes. There is a growing sense that approaches of the past have not resulted in the change or impact that have been sought. (Jed Emerson, *The Roberts Enterprise Development Fund* and *The U.S. Nonprofit Capital Market*.)

**APPENDIX C: PROJECT PARTICIPANTS****Advisory Committee**

1. Linda Appleton, Program Officer, The Health Trust, San Jose, CA.
2. Barbara Larson, Development Officer SV2, Community Foundation Silicon Valley, San Jose, CA.
3. Dave Sandretto, Executive Director, Second Harvest Food Bank, San Jose, CA.

**Participating Human Service Organizations**

1. Advent Ministries, San Jose, CA. Youth and family counseling, foster care, group homes.
2. Bay Area Health Ministries, San Francisco. CA. Community wellness education and training.
3. Catholic Charities, San Jose, CA. Integrated services to youth, family, elderly, immigrants.
4. Capernaum Project of Young Life, San Jose, CA. Programs for youth with physical and emotional disabilities.
5. Episcopal Charities, Berkeley, CA. Nonprofit administration, fundraising and fiscal support.
6. Inn Vision, San Jose, CA. Emergency and temporary shelters and comprehensive services.
7. Jewish Family Service, Los Gatos, CA. Social service programs, refugee resettlement, distributions.
8. Lutheran Services of Northern California, San Francisco, CA. Social services to people with aids, family counseling, and housing.
9. National Conference for Community and Justice. Advocacy, conflict resolution and education.
10. P.A.C.T. (People Acting in Community Together), San Jose, CA. Congregational leadership development and community organizing.
11. San Jose Children's Musical Theater, San Jose, CA. Theater arts programs for youth and families.
12. San Jose Grail Development Corporation, San Jose, CA. Community resource center. Affordable housing, childcare, and adult education.
13. Sacred Heart Community Services. Emergency assistance, counseling and education.
14. Society of St. Vincent de Paul, San Jose, CA. Emergency services, thrift stores, vocational development.
15. YMCA of Santa Clara Valley, San Jose, CA. Youth and family programs and services.
16. Urban Ministries of Palo Alto, Palo Alto, CA. Emergency services, shelter, counseling.

**Participating Foundations**

1. Center for Venture Philanthropy, Peninsula Community Foundation, San Mateo, CA.
2. Cisco Systems Foundation, San Jose, CA.
3. Community Foundation Silicon Valley, San Jose, CA.
4. San Francisco Foundation, San Francisco, CA.
5. Silicon Valley Social Venture Fund (SV2), Community Foundation Silicon Valley, San Jose, CA.
6. Walter and Elise Haas Fund, San Francisco, CA.