Venture Capitalists and Entrepreneurs Become Venture Philanthropists

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1 Abstract

Within the context of social entrepreneurialism, non-traditional charitable sources of revenue may be categorized as follows:

- **Corporate Strategic Giving** with funding and resources seen as an investment to achieve corporate business aims (cause-related marketing, co-branding and sponsorship).
- **Venture Philanthropy**, human resources and funding invested in the charity by corporate entrepreneurs in search of a social return on their investment.
- **Commercial Ventures**

This article demonstrates how charities, venture capitalists and entrepreneurs may work together in strategic alliances. It explores venture philanthropy from the perspective of venture capitalists and entrepreneurs, giving examples. Charities are shown how to prepare themselves to take advantage of these entrepreneurial opportunities.

Although the emphasis in this article is on venture philanthropy, the processes outlined may be used to help a charity take advantage of opportunities within the broader social entrepreneurial context.

2 Introduction

After serving on a local government body, George Bernard Shaw guessed that few people, five percent, are blessed with political ability, the talent to turn innovative thoughts into action and results. Successful venture capitalists and entrepreneurs have demonstrated the ability to turn business ideas into results and are now turning their attention to helping charities achieve their mission.

These are challenging times for charities. Over 180,000 charities in the United Kingdom are competing directly or indirectly for clients, volunteers, members, and for the time and resources of supporters.

To remain vital, to stay ahead, a charity's leadership must not stand still. They must innovate, becoming more socially entrepreneurial, creating and implementing new ways to generate additional and diverse sources of revenues. They must learn to manage innovation and be commercially entrepreneurial, all the time protecting their mission and living their core values.

This article demonstrates how charities, venture capitalists and entrepreneurs may work together in strategic alliances. It explores venture philanthropy from the perspective of venture capitalists and entrepreneurs, giving examples. Charities are shown how to prepare themselves to take advantage of these entrepreneurial opportunities.

Social entrepreneurialism: The context

Within the context of social entrepreneurialism, non-tradition charitable sources of revenue may be categorized as follows:

- **Corporate strategic giving** with funding and resources seen as an investment to achieve corporate business aims (cause-related marketing, co-branding and sponsorship).
- **Venture philanthropy**, human resources and funding invested in the charity by corporate entrepreneurs in search of a social return on their investment.
- **Commercial ventures** seeking a financial return on investment, businesses (franchising, licensing, mission and non-mission-related business enterprises and joint ventures) operated by charities and their trading companies alone or in partnership with the corporate sector, venture capitalists or venture philanthropists.

Although the emphasis in this article is on venture philanthropy, the processes outlined may be used to help a charity take advantage of opportunities within the broader social entrepreneurial context.

Venture philanthropy: Definition and examples

As a senior staff leader of a charity in the nineteen eighties I was involved in venture philanthropy activities, including convincing a company to invest in the charity. They helped with the expansion of one of the charity's mission-related commercial ventures by funding the franchising of the service.

- This was social investment on behalf of the company in the charity.
- It helped the charity increase and diversify its revenue base.
- It fulfilled the business goals of the company by ensuring their employees across Canada received a wonderful employee benefit.
- Employees received much needed service

Everyone won!

A variety of funders in North America have defined venture philanthropy emphasizing different elements. In essence, they see it as similar to that of venture capitalists, taking the initiative, but investing in new ideas generated by charities. Venture philanthropists want a close relationship with the social entrepreneur investing time, human and financial resources intimately helping to achieve the business plan targets. For example:

- Peninsula Community Foundation/Center for Venture Philanthropy (California) looks for long term business plans, partnering, a results orientation, investment of funds and expertise, and an exit strategy. They invest in three-year business plans of an organization or partnership that is new or moving to a new stage.

For example, they support helping low income people develop Individual Development Accounts, matching an individual's saving two to one, the funds used as a personal investment in a home, business or education.

- New Profit Inc. (Mass.), in addition to the criteria outlined above, invests based on performance rather than need. They work with successful social entrepreneurs funding the highest performers; use due diligence to create a portfolio of organizations to support; provide strategic and growth advice; look for a social return; and become Trustees.
- The Marino Institute (Virginia) focuses on "netpreneurs", providing funds and management assistance.

It also invests in building the capacity of organizations serving children.

The following are some examples from an extensive program of venture philanthropy in North America.

- Entrepreneurs' Foundation (California) work with hi-tech companies incorporating community involvement as a core element of start-up companies. It provides strategic and networking resources to charities as well as support for youth programs.

"As EF implements venture philanthropy strategies, it will add value to Partners in School Innovation through Myers' active participation on the board, collaboration to implement Partners' business plan, arrangement for specialized expertise to help anticipate and meet the management challenges of growth, and the introduction of Partners to many potential supporters in the entrepreneurial sector. EF has already worked with Partners' management team to develop a new five-year plan as well as quarterly milestones and performance measurements. EF's initial investment represents a 20% increase in Partners' budget, enabling the organization to hire key people and retain existing team members. It will help Partners to build the capacity to deliver services to many more schools than would otherwise be possible. Just as a venture capital firm would do, EF anticipates making additional investments in Partners in School Innovation as the organization achieves its milestones and performance measures" (November 1999 Press Release)."

- Robin Hood New York (New York) concentrates on early childhood, education, youth, and job training programs, as well as basic survival programs in healthcare, hunger, housing, and domestic violence.
- The Roberts Enterprise Development Fund (California) support charities that provide transitional and permanent employment support to low income and homeless people.
- The Flatiron Future Fund and Flatiron Foundation (New York) assist charities that help minority entrepreneurs and children's technology education.
- The Community Development Venture Capital Alliance (New York) uses equity capital and entrepreneurial assistance to support job creation in economically distressed communities.
- Community Wealth Ventures (Washington, DC) works with others, providing a clearinghouse of information in support of organizations promoting social change using resources produced from charity run commercial ventures.

H. M. Drucker (Oxford Philanthropic), in an unpublished paper prepared in 2000, listed beginning venture philanthropy activities in the UK. These included work by the Lloyds/TBF Foundation supporting infrastructure development and the Local Investment Fund providing loans to community enterprises.

Third Sector (Issue 198; 14 December 2000) in an article entitled Seeds Of Change describes the work of Asoka UK and how a consortium is in process of establishing UNLtd, a foundation supporting social entrepreneurs.

International examples described in the Wall Street Journal (07 June 2000) include work of Martin Varsavsky supporting the development of an education Internet portal in Argentina and of Klaus Tschira in Germany in the field of information technology.

Venture philanthropists: Motivation

Wired Magazine (September 1999), in an article entitled "Nonprofit Motive," outlines some of the motives of venture philanthropists. These include being motivated by one's peer group; feeling the joy of giving and intellectual stimulation applying one's knowledge and values especially as it relates to entrepreneurialism (having an idea and making it happen); overcoming "an image of stinginess;" and enjoying tax advantages while controlling how one's money is spent.

Often, entrepreneurs get their employees involved thus providing them with alterative challenges while building employee loyalty.

Pressure is also increasing on entrepreneurs to participate more actively in their communities. In Canada, The Conference Board of Canada and the University of

Toronto offer a Certificate in Corporate Social Responsibility, a sign of the growing importance of corporate social responsibility. The program shows how to "achieve business objectives by integrating economic, social and environmental challenges and opportunities into their long-term corporate strategy and day-to-day business practices" (Canadian FundRaiser 27 December 2000).

In the UK, the Social Investment Task Force, in its report Enterprising Communities: Wealth Beyond Welfare (October 2000), strongly encourages private sector financial and management support helping "move away from this culture of philanthropy, paternalism and dependence towards one of empowerment, entrepreneurship and initiative" (page 4) It recommends to government policies to support venture philanthropy. These include a community investment tax credit, community development venture funds with matched public and corporate sector funding, disclosure of individual bank lending activities in under-invested communities, and support for community development financial institutions.

Finally, from a corporate entrepreneurs' perspective societal order is valued for its positive impact on business. Being involved with social entrepreneurs is good business. Charities break down barriers, harness and enhance skills, and help build a cohesive vibrant community.

Strategic issues for the venture philanthropist

From a corporate entrepreneurial perspective, it is important to settle on what is meant by venture philanthropy.

It could mean acting as a venture capitalist investing in commercial enterprises operated by charities and their trading companies, investing as any venture capitalist would using the same model and standards of due diligence seeking a financial return on investment for both parties. This approach would ensure ownership by the charity; support their business-like efforts, which if done properly would impact on the efficient and effective use of resources throughout the charity; and create sustainability through income from the charities commercial ventures portfolio.

A second approach follows the North American model, investing in charities to achieve a number of measurable social results. This could include start-support, risk venture financing to demonstrate new and creative approaches, infrastructure development or investing in people, seeking a social return on investment by using an modified venture capitalist model.

This later model could include the creation of venture funds; a long term financing commitment over several years; getting involved by giving management and growth advise, by having a seat on the Board of Trustees, and by playing a role in the recruitment of senior managers; by agreeing to, monitoring, evaluating the business plan and playing a role revising the service implementation process. Creating an exit strategy and exercising it with the charities is also appropriate.

It is important for the venture philanthropist to recognize that charities are different from businesses. Each has to be business-like, utilizing resources in the most efficient and cost effective manner possible. However, the bottom line for a business is to make a profit. For a charity, its primary purpose is to help, with profit not being in the equation.

Therefore a charity makes decisions based on an end different from a business. Values may be similar, ends definitely differ.

Another factor to be considered is that charities have multiple stakeholders, thus slowing down decision-making processes. Many charities may not be organizationally ready to be entrepreneurial. They may need basic support from the venture philanthropist to ready themselves.

When starting off it is important for venture philanthropists to have in place a number of items including a plan which contains a vision and mission, sets funding area directions and priorities, outlines guidelines and a clear process including ongoing involvement and evaluation, and defines values in order to ensure there is a fit with charity partners. Business in the Community in its booklet, The Cause Related Marketing Guidelines (1998), lists key principles, which have applicability to venture philanthropists. These include integrity, transparency, sincerity, mutual respect, partnership and mutual benefit.

Strategic issues for the charity

The entrepreneurial approach taken by an individual organization to preparing varies depending on a number of factors including the organization's current state of readiness and availability of resources. It may also comprise different combinations of trustees, staff, members, volunteers and stakeholders in multilevel, multifunctional, geographically dispersed teams working at various stages throughout implementation.
It is important to approach this in a systematic manner as outlined below. It describes steps to prepare an organization as well as a product development process.

Some other points to consider:

- The purpose of business is to make a profit, whilst a charity's is to meet a need. This understanding of the difference in purpose, motives, goals and language is necessary, as the corporate entrepreneur may not have extensive experience with charities.
- Charities should establish policies in support of the profit motive for their commercial activities and for the venture philanthropic approach.
- Entrepreneurial values for consideration could include:

    - We are customer focused.
    - We strive for transparency and accountability.
    - We value effectiveness.
    - We accept change and support excellence.
    - We are responsive to the external environment.
- Venture capital business plans are specifically written to enhance the chances of investment in the idea. They should be carefully written with the venture philanthropist in mind and should focus on a series of issues related to the people involved, the opportunity, the context, and the possibilities for risk and reward.

Preparation and presentation are crucial. Research the philanthropist and their activities. Arrange for a business-to-business presentation. In the presentation downplay the traditional approach of describing clients and their needs and how the charity helps them. Demonstrate knowledge about the philanthropist's industry, his place within the industry, his needs and priorities as they relate to his philanthropic goals, ideas or initiatives (an overview of the business plan) for the charity to implement and how it meets the needs of the venture philanthropist, and a business analysis of the charity to establish credibility.

- An additional step, leading-edge networking, may be taken to enhance the traditional and effective service/product development process described above.

It is composed of a review of the literature and the web researching innovative programs, products and services throughout the world to identify opportunities. This would consist of designing/implementing an exercise to identify and talk to experts on the leading-edge of servicing the target population group and in fields that face similar problems but in different forms. Included would be the identification and description of the innovative service(s) and a preliminary assessment of them as to their efficacy and applicability.

If funds are available, an organization could design and host a special two to three-day creative session composed of internal and external stakeholders and the identified leading-edge experts to create ideas and plans for new products and services to meet the needs of the charity.

Summary

Venture philanthropy is an application of the venture capitalist approach to investing in charities. It is a growing new source of funding whether it be for traditional venture capital funding of charity commercial ventures seeking a financial return on investment or for philanthropic purposes attempting to achieve a social return on the investment.

Most of the effort to date has been in North America. However, it is now at the beginning stage in the UK and Europe. There are many strategic issues for venture philanthropists to consider as there are for charity. Communication and understanding of differences and vision will be crucial to the success of Venture philanthropy.

It is now an opportune time to prove Shaw right. The talent to turn innovative thoughts and ideas into action and results is available to charities. Successful venture capitalist and entrepreneurs are turning their extensive energy and resources to help charities turn commercial venture business and social ideas into results.

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