

National Assembly's National Collaboration for Youth Executives
Remarks by Carol Thompson Cole
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Title: The Intersection of Old and New, Local and National: Creating a Culture of Innovation

Thank you so much to Irv Katz for inviting me to join you today to talk about the Intersection of Old and New, Local and National: Creating a Culture of Innovation.

History and Approach

I would like to share a little bit with you about Venture Philanthropy Partners and our approach to supporting innovation and scale and then share some lessons from our first portfolio that might have particular relevance for your organizations. And then I look forward to an open dialogue as I know many of you have experiences fostering social entrepreneurship in local sites, and I know we have much to learn from each other as well.

Venture Philanthropy Partners is a philanthropic investment organization that helps great nonprofit leaders grow effective programs to improve the lives of more children and youth of low-income families in the National Capital region. We also hope to inspire and influence others to increase the impact of their own philanthropy, starting with our investor community.

We were founded ten years ago by three business leaders, Mario Morino, a software entrepreneur, Raul Fernandez, an internet entrepreneur and Mark Warner, a venture capitalist who later became Governor and then Senator of Virginia.

In our first fund, we raised \$32M from 29 families. In our second, we have raised \$38M so far towards a goal of \$50M and the investor community includes 76 individuals and families, institutions including like the Annie E. Casey Foundation and corporate partners.

At its core, our approach is very simple:

- Find outstanding, innovative nonprofit leaders with proven programs.
- Provide them with large amounts of growth capital – funds that are only for building the infrastructure of their organizations – in the \$2-4 million dollar range.
- Commit to work with each nonprofit for 3-5 years.
- Add hands-on strategic assistance from our own team and a network of providers to give them guidance, help leverage their resources, make introductions they need and provide other assistance.
- Build a trusted relationship where we are seen as a critical advisor.
- And help them scale their impact either by serving more children and youth, increasing the outcomes for those they serve, becoming a model for others, or some combination of these.

Results and Lessons

We committed our first fund to 12 nonprofit organizations that we call “investment partners”.

Overall, those organizations grew to serve almost 12,000 additional children and youth in 37 new neighborhoods. The organizations themselves are stronger and more stable, with senior management teams, engaged boards, greater fiscal accountability and stability, systems for performance measurement and improved programs.

We leveraged the first fund more than dollar for dollar, with almost \$34M in additional funding and other value given directly to portfolio organizations.

As a new organization and approach, VPP has learned many lessons along the way, some of which are particularly relevant for others thinking about how to transform their own organizations or how to support transformation.

And I use the word transformation, because that was one of our lessons. It takes more than an infusion of growth capital, more than high level strategic assistance, to build nonprofits to the point where they can innovate and scale successfully. It almost always takes transformation.

The leaders in our first portfolio were almost evenly split among what many would describe as “social entrepreneurial” leaders and organizations and more “community-based” organizations with “community building” leaders. That wasn’t by design, but happened organically as we looked for the strongest organizations with solutions that worked for children and youth in need.

And in both cases, transformation was required, although it often came in different forms.

I would like to share some of our lessons about how transformation comes about, and what that means for different types of nonprofits and leadership styles.

For both types of organizations:

Scale Means Scale in Impact, Not Just Numbers

We learned early on that, scale in outputs alone is meaningless without scale of real results – outcomes and impact for children and youth.

To that end, we have changed our definition of scale to include:

- increases in outcomes and
- indirect scale caused by disrupting a system or creating models and catalysts for adaptation by others.

For your organizations, this lesson may have particular relevance. Instead of scale and growth in numbers, transformation and growth may be much more about adapting service models, aligning programs and resources to community needs, forging new partnerships within communities, and spreading successful models throughout your networks.

Also, scaling impact is a big change, not incremental change, and often requires organizational transformation.

Organizational Readiness and Ability for Absorption Must be Assessed Up Front: For an organization to truly transform—changing its performance culture, beefing up its infrastructure, and entering a rapid growth phase to scale impact—all the stars must be aligned. We have found that, like with so many things, timing is everything. While we can’t control external factors, we assess whether or not a potential investment is ready for growth and how much ability it has to absorb the injection of capital, extensive business planning, and strategic assistance that VPP provides.

So part of what we have learned is how to select organizations where scale of impact and transformation is possible. We look for the right kinds of leaders, including the board leadership. We assess readiness and bold ambitions. We evaluate the inherent strength of an organization, its financial model, and its programs, and we identify where it is weak and needs help. And we test the organization’s willingness to participate in a high-engagement model, which isn’t for everyone.

Planning, research, and data are key. Social entrepreneurial organizations sometimes have more data collected, but not always, and all organizations benefit from a rigorous planning process which engages all stakeholders, and most importantly, aligns board and executive leadership. Our plans take 3-4 months and are led by strategic planning firms like McKinsey or Monitor.

Our planning processes are really about confronting realities, sometimes realities that have long been ignored by the organizations. Looking hard at financial models, truth about program outcomes vs. participation, addressing the systems in an organization that provoke institutional change. It's not always an easy process, but for those willing to transform, it's the place to start. Planning should challenge the fundamental assumptions an organization holds sacred.

Clear plans and extensive data lead to a different kind of decision-making, and that decision making itself begins to transform the organization as it becomes more disciplined, rigorous and strategic in its execution.

Change happens in an ecosystem.

Another huge lesson we have learned—and we are still exploring the implications—is the need to consider and effect “micro-policy.” In order for our investment partners to scale and grow, it is often necessary to address deep, underlying system impediments. Regulations, the way capital flows, and local, state, and federal policies all may create impassible barriers to sustainable scale and to social change.

As a growth funder, we need a full understanding of the environment in which our partners are trying to expand. We need to look for opportunities to leverage our network to its fullest extent and consider supporting our investment partners and/or the larger community to come together and take action. While we do not now fund direct advocacy organizations, we are increasingly aware of the need for nonprofits to take on advocacy as some aspect of their work.

In some ways the community based organizations in our portfolio understood this better, or at least intuitively, than the social entrepreneurial organizations, but even they did not always get it right out of the gate. In some cases, leadership had become distant from the communities in which the organization worked. In other cases, the organization knew the community and ecosystem in which it operated very well, but was completely unfamiliar with the systems – formal and informal – and the key players, in new jurisdictions and neighborhoods. Work had to be done as organizations were growing and scaling to make sure they were not rejected by their new areas of service.

Flexibility and Trusting Partnerships are Critical

We can not be effective as a partner to organizations in this process if we haven't built a trusting relationship. We have also learned we need to be flexible in our model, letting the organization and its plans dictate the shape of an investment and its milestones, in a way we can both mutually agree. One of the things that we share with venture capital firms is that our funds are often a kick in the butt. People see the money and want and need it, but it functions in many ways like a pressure point that helps catalyze transformation. Because even when everyone agrees they want change, it needs incentives, and continued pressure and reflection points to finally take place.

Transformation takes More Time and More Money than we ever expected: Growing to scale and strengthening organizational capacity in a meaningful and long-lasting way requires even more capital and time than we originally envisioned. In the second portfolio, we will be making fewer (probably five to eight) investments and most likely committing higher amounts to each investment. Our current investor commitments to VPP and Portfolio II go through 2014, which does not give us as long of a time horizon as we would like. We are working towards an “evergreen” model of capitalization for our own organization so we can extend investment engagements beyond the second portfolio.

Conclusion

Those who undertake transformation and those who support them must be committed for the long-term. Just think, these problems were not created overnight, and they will not be solved overnight.

When VPP started ten years ago, it was a new idea, a new approach to philanthropy.

Our first fund was a pilot and we had significant results in the 10 years. We launched investments in our second fund in November of 2009 with our first investment partnership of the second portfolio – an investment of \$4.5M in the National Capital Region site of Year Up to expand their train more young adults in our region and potentially influence how local workforce development efforts are executed and funded. We have also just finished the business planning process with KIPP DC and are looking at what the investment opportunity will be for us to work together.

One of our biggest lessons from Fund 1 to Fund 2 was that we have an opportunity for greater impact. The individual investments in our first fund were successful, but we need to take our second fund to the next level.

For us, that means investments that are truly at that intersection of old and new, local and national. By helping demonstrate and scale programs at the local level, we can have an impact on national networks. By working with both community-based leaders and social entrepreneurs, we can help those organizations learn from one another. By fostering and supporting deep collaboration among organizations working towards a common outcome framework, our impact can increase exponentially.

As government and the Obama administration rolls out its innovation funds and initiatives, we see more opportunities for intersection, including those between government and philanthropy.

In every ten-year cycle, something “new” comes on the horizon, and those of us who have been around for a while know that what’s “new” is often just the same approaches with a new label. But it is critical that we connect the new and the old, beyond the labels, combining the hard-earned lessons with the innovation, energy and enthusiasm of the next generation.

VPP recognized early on that it needed to blend its new approach with the effective practices of the philanthropic and nonprofit sectors. We now often see ourselves as a bridge, bringing together for-profit and nonprofit, disconnected pieces of our region, established organizations and new nonprofit leaders, all for the benefit of children and youth in the Nation’s Capital.