

Remarks for the Mid-Atlantic Venture Association "7 on 7 Breakfast"
February 19, 2010
By Jack Davies

The philanthropic sector is facing an unprecedented "perfect storm" of challenges due to the global economic meltdown. Never has the need been greater for the support and services that non-profits provide, yet never - never - has there been a more challenging funding environment. Thankfully, the philanthropic sector has adapted to these new realities and there are new models emerging to address the pressing needs.

How did I find myself here, on this podium, billed as an "entrepreneur turned philanthropist"? I retired in 2000 as Founder and President of AOL International 4 days before the Time Warner merger was announced (and yes...it IS true that timing is everything!!). Having been raised with the belief that "to whom much is given, much is expected," I committed myself to "giving back" during this next phase of my life. That was the easy part. But after facing a withering array of choices, I have learned that if you value impact and results IT IS NEARLY AS HARD TO GIVE MONEY AWAY AS IT IS TO MAKE IT!!

There are a number of things that I wish I had known when I started down this road.....

1. I WISH I HAD KNOWN how different the world of non-profits is from the for profit world. Like doing business in a foreign country, I found a different culture, different language, and different motivation system.
2. I WISH I HAD KNOWN what a gross oversimplification it is to say non-profits JUST need to be run more like for-profits. There is no doubt that there is a need for greater focus on rigor and discipline, but it is important to recognize how the mission focus of non-profits needs to be balanced with the financial bottom line.
3. And I WISH I HAD KNOWN the extent to which non-profits will engage in what has been euphemistically referred to as the "Dance of Deceit" with funders. Non-profits will say or do just about anything to secure funding for their mission.

Looking at the magnitude of challenges facing the non-profit sector today, there has been a blurring and merging of the non-profit and the for-profit sectors. The most effective solutions come from hybrids of the two.

With this as a backdrop, I would like to focus my remarks on what I think is the key emerging trend in the social sector: "results-oriented philanthropy" or "high engagement philanthropy" or simply "venture philanthropy." Drawing from the experience of successful venture capital and private equity investors, increasingly foundations, corporations, and individuals are raising the bar on giving to demand more accountability for results and to be more highly engaged with the organizations that they are funding.

Non-profits need many of the same skills, talents, structures, and management principles that the for-profit sector has and face a lot of challenges:

1. A shortage of growth capital.
2. Limited investment in organizational capacity and infrastructure.
3. Little emphasis on metrics, measurement and data.
4. A shortage of new talent. The Meyer Foundation did a study in 2006 that revealed that "3 out of 4 executive directors plan to leave their jobs within the next 5 years."
5. Lack of know how and expertise to scale solutions that work.

Sound familiar? Standing in front of a room of venture capitalists,,this fact pattern looks eerily similar to the challenges faced by most venture backed companies. Key funders in the non-profit

sector have responded with an increasing focus on "capacity building" and developing new funding models. Some of these include:

1. **New Profit** is a non-profit fund in Boston that invests in non-profits with proven business models and provides growth capital and expertise to help these organizations expand to new cities and markets. Heavily focused on funding social entrepreneurs, New Profit has worked with organizations like Teach For America and College Summit to help with their national expansion.
2. **Sea Change Capital** was founded by two former partners of Goldman Sachs, and has raised multi-million dollar rounds of investment for a limited number of non-profits on a nationwide basis from their network of donors. Visualize a roadshow for non-profits where the focus is on social return on investment.
3. **Edna McConnell Clark Foundation** is a traditional foundation, created by the family who founded Avon, that has completely retooled itself to become a high engagement organization and is currently raising \$100 million for 3 different organizations.
4. And closer to home, **Venture Philanthropy Partners**. VPP's first fund in 2000 raised \$32 million from 28 families to invest in organizations serving low income children and families in the National Capital region. VPP deployed this money and leveraged an equal amount of additional funding to 12 organizations serving over 40,000 children in the region. VPP has commitments for its second fund of \$38 million to invest in a further 6 to 8 organizations.

What are some of the lessons learned from this "results oriented philanthropy"? In keeping with the SEVEN THEME of this morning, here are seven lessons learned.

1. **LEADERSHIP IS EVERYTHING**. As in for profit investing, the success of an investment in building scale in a non-profit is reliant on a strong leader. Without this, the investment is likely to fail.
2. Even with multiyear commitments, it takes **more time and more money** to achieve transformational change. Transformational change is hard and most funders underestimate the resources and time that will be required.
3. **Strategic and management support is as important as the money**. An important lesson learned from the venture world is that it is about more than just the money. A willingness for funders to work shoulder to shoulder with their non-profit partners is a key success factor.
4. **Scale is more than numbers served**. When looking at the social impact of growing a non-profit, it is important to look at outcomes for those served. Deepening, expanding, and improving programs to have a bigger impact on those served is key.
5. **Organizations have to be ready**. Organizations have to be truly ready for transformation and committed at the board and management levels to the kinds of changes that are going to be required. To grow to scale requires changes in infrastructure and culture, and many are not ready to take this on.
6. **Measurement is king**. Often in short supply in non-profits, a key ingredient of building a solid growth plan is to ensure that there is a tracking system to measure performance against milestones as the organization scales.

And finally, 7. **You can't go it alone**. All funders benefit from collaboration and coordination, but for growth capital providers it is critical. A mixture of funding from private funders, corporations, and government is key to leverage each others' investments and sustain growth.

As much as this will all sound familiar to you as venture investors, it is pretty breakthrough

thinking in the non-profit sector. At the end of the day, investing in non-profits using a "venture philanthropy" model is one of many philanthropic options available to those who want to have a positive impact on the world around them.

What is important is to identify your personal or corporate charitable priorities and to use BOTH your head and your heart to have the biggest possible impact.