

Three Yards and a Cloud Of Dust The Venture Philanthropy Landscape—2002

The castle-like towers of the Pittsburgh Plate Glass Building sparkle blue and silver over the Steel City's downtown skyline. The towers are home not only to some of the region's most influential corporations but also to innovative charitable foundations working to improve the lives of Pittsburgh's low-income children and families.

In a recent visit to the building to meet with several leading foundation executives, it was clear that the nation's economic downturn is having a profound effect upon the region's grantmaking. Seated at a large conference table on the 7th floor of the building, one foundation leader explained, "Our endowment has lost more than \$300 million over the last year, which means we'll have to make smaller and fewer grants next year. Unfortunately, we'll put \$15 million less out into the community. That means the ... organizations we fund must have the capacity to succeed. Our decisions have to be more strategic."

"The nonprofit sector must prove its value to the community," echoed the vice-president of another established foundation. "They have to show some urgency ... about outcomes and efficiencies. It's just not possible for us to continue funding [all of our grantees] at the high level we've been funding them."

It's not simply the economy that has led some tenants to rethink the way they go about their business. In the aftermath of September 11, security has been enhanced throughout the building and parking garage. The building's size and stature also make it vulnerable.

The same can be said of philanthropy at this extraordinary moment in American history. Our philanthropic and nonprofit institutions have grown dramatically both in number and size, fueled throughout the 1990s by a sizzling economy, overheated stock market, and the government's continued retreat from the business of social service delivery. But today, following the attacks of September 11 and the end of the dot-com boom years, they find themselves as exposed as the Pittsburgh Plate Glass Building. Not only has the stock market's severe slide significantly diminished many endowments, but also evidence is mounting that grants by themselves cannot build the capacity of nonprofit organizations to meet our communities' great and growing needs. As the nonprofit sector has matured and evolved, its needs have shifted from seed funding and catalytic capital to financing that will help take proven ideas to broader markets and to larger scale. The kind of help that established nonprofits need to be successful today is different than the types of support they needed when getting started.

The concerns voiced in Pittsburgh are representative of the issues facing institutions everywhere. Implicit in them is a challenge to the nonprofit sector and the grantmaking community to focus on outcomes and leverage resources to ensure a higher degree of impact for communities in need. This is the challenge that venture philanthropy—and its more encompassing cousin, high-engagement grantmaking—have set out to address.

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As it moves toward the middle of its first decade, like a football team moving toward mid-field, high-engagement grantmaking might best be characterized the way legendary football coach Woody Hayes once described his championship Ohio State team's advance: "three yards and a cloud of dust." The gains are steady but they are not glamorous; high-engagement grantmakers are learning lessons, making grants, working with investment partners—grinding out victories in their inexorable march up field. The achievements are

best measured as a series of first downs, but no points have yet been put up on the board. Nearly 25 percent of the organizations surveyed in this year's report have yet to make their first grant. Only after they make these grants, after they engage as deeply with their partner organizations as they intend, and after those organizations have a chance to implement their new plans will we know something about the difference the high-engagement approach can make. Touchdowns are still a few plays away.

The vantage point created through the compilation of now three of these annual reports makes clear that more highly evolved and adapted forms of high-engagement grantmaking are emerging today. The surveys reveal that some organizations have ceased operation, new organizations continue to enter the field, and somewhere in the middle are a handful that have stuck with it. They have remained committed to the basic principles of high engagement, and they stubbornly continue doing what entrepreneurs do best: changing and adapting and learning by trial and error until they find what works. Those that have developed some traction have added staff and purposefully increased their own capacity as a first step toward being able to help build the capacity of others.

And there is an increasingly solid field upon which to play. It can be seen in the conferences, papers, web sites, and new grantmaking practices in communities across the country. It can be seen in MBA classes at Stanford, Brandeis, Northwestern, Harvard, and other campuses, where strategic management of nonprofits is a staple and increasingly popular part of the curriculum. It is evident in the growing corps of for-profit and nonprofit management-assistance providers operating locally and across the country.

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The national and international conversation about venture philanthropy and high-engagement grantmaking continues to expand, an indication that its formative stage is not yet complete. Its rich promise shines in places like Alexandria, Virginia's public housing neighborhoods, just minutes from the charm and privilege of Old Town's cobblestone streets and townhouses and a stone's throw across the Potomac River from Washington, DC.

In 1984 the mothers living at Cameron Valley, a now-closed public housing neighborhood in Alexandria, discovered that every one of their children had failed kindergarten and was being denied entrance into first grade. Picture the parents attempting to make sense of this, standing in each other's doorways, voices lowered, shaking their heads, with shoulders sagging as if spring unexpectedly failed to lift winter's weight. Now, with failing report cards in hand, it was as though their hope for their children had spilled onto the ground.

With the U.S. Department of Education and numerous children's advocates and coalitions entrenched just across the Potomac, you would think someone would have seized on this, raised hell, come to the rescue. You would think a proud president or senator might have said "not in my backyard." Think again. The story of the mothers and children of Cameron Valley wasn't even a whisper in the cacophony of global, national, and local needs that dominate the region's discourse. If change were to come, it would have to come from the place it was least expected: from within their own community.

Among the moms there was shock and anger, but also a determination to act. Enter Barbara Mason, one of three teachers they interviewed in the hope of creating a preschool program for their children. Mason, a woman of above average talent and below average ability to look the other way, had seen the ad the mothers had placed in the local paper offering "A Chance to Make a Difference in the Life of a Child." A mother of four children who had faced their own learning challenges, Mason refused to accept that geography

was fate and that fate could be decreed by the age of five. This Erin Brockovich of preschool poverty worked hand-in-hand with the moms to fight stereotypes and long odds to create a new set of opportunities for these kids.

In Barbara Mason, the moms found someone who shared their belief that they could put their children on an equal footing with middle-class kids who attended nursery schools. They founded the Alexandria Community Network Preschool to provide free classes to their three- and four-year-old children. She said she could teach by rewarding children for doing well rather than punishing them for poor behavior. There was skepticism, but Mason and the moms persevered. In the first year only six children showed up. All six were later identified by the school district as gifted and talented.

Mason is still providing free classes today, but now to 125 students at five locations. The services Mason devised are simply too comprehensive to allow a child to fail. They include speech and language therapy, psychological assessment, physical and occupational therapy, and support to families through counseling services, parent education, a family literacy program, and job training. The preschool also employs 25 parents in the classroom every year, providing them income and an opportunity to learn child-rearing skills. Fourteen mothers whose children attended one of the preschools are working there. Four have become credentialed teachers, seven have earned a child development associate's degree, and five are working toward their bachelor's degree. Each class serves about 16 kids, and the waiting list for the program includes more than 80 children.

While recently pitching a group of venture philanthropy investors, Mason admitted to being "tenacious," confessing that some people use the phrase as a euphemism when describing her, just as her teachers tell parents that their children are very "enthusiastic" in the classroom. Around the table sat retired AOL executives, software entrepreneurs, and venture capitalists worth hundreds of millions of dollars. She was nervous, uncomfortable—even as she described the passion that had driven her these past 17 years—scanning the room for a friendly face, leaning into any smile, picking up her pace when she detected a subtle nod.

The goal of the investors was not to provide more seed money for attractive new ideas, but to back what was working and get it to scale. After Mason's presentation, they approved an initial investment for the first stage of a planning process that will enable her to expand her program to serve up to 1,200 children in the community. The total commitment is likely to amount to several million dollars—and countless hours of strategic help—over several years.

This is the stuff high-engagement grantmaking was made for. Programs that are proven. Outcomes that are measurable. A need not only for funding but also for strategic management advice about how to grow to scale. A recognition that money is an important tool for building capacity but that it's not the only tool.

The greatest mistake we can make as a society is to give up on a child too soon. When Alexandria, Virginia's, school system made that mistake, Barbara Mason and a community of caring moms caught and reversed it. But only for a handful of children. The high-engagement approach, not conceived or even imagined 17 years ago when Mason got started, is today emerging as a powerful tool for ensuring that an idea that works can grow to reach all those who could benefit from it.

A few years ago, the concepts of venture philanthropy and high-engagement grantmaking were overinflated with airy promises to transform philanthropy as we know it. Today, we can see that their progress toward that promise is real but not yet revolutionary. It's important to view this progress in perspective. The Foundation Center notes that there are more than 50,200 foundations in the United States, which together made \$27.6 billion in grants to nonprofits in 2000. By comparison, this report profiles 42 high-engagement grantmakers and estimates that in 2001 they invested just over \$50 million, not even 0.2% of total foundation grantmaking. A tiny amount. But important nonetheless.

Important because if successful, a few small high-engagement grantmakers can influence the other philanthropic activities of a fund's investors. They can model a way of partnering with grant recipients that may be worthy of emulation by large donors and foundations alike. In this way tens of millions of dollars can be leveraged to influence tens of billions, and philanthropy's vulnerability can be transformed into strength.