

Philanthropy UK

VENTURE PHILANTHROPY

Introduction

In July 2002 *Philanthropy UK* organised a small private workshop with the aims of

- reviewing the current understanding in the UK of the concept of Venture Philanthropy
- considering whether there is substance behind the rhetoric, in the UK context
- exploring what might make Venture Philanthropy work in this country, and what might not, and
- exploring current experience and development, in the US as well as in the UK.

Philanthropy UK had decided to take the lead on this because we felt it would be useful to understand better whether and when Venture Philanthropy could and should be part of the portfolio of major donors. We also wanted to explore whether it would be an appropriate subject for a bigger public workshop at some point.

The workshop was planned with the help of Pilotlight, who hosted the half-day meeting, and facilitated by David Carrington.

The 20 people attending did so on the basis that “Chatham House rules” would prevail, so the notes from the discussions, which were prepared by Sue Delafons, are restricted to the participants. However it was felt that readers of this newsletter might be interested in some of the points which emerged, and this paper is an attempt to present them, based on the notes.

Two points:

- a) Participants were provided with a set of briefing papers drawn from material published here and in the US. These can be downloaded from our web site, together with Henry Drucker’s paper of February 2000.
- b) Participants included representatives from institutional, family and corporate grant-makers, a US expert, UK consultants advising in this field (helping both those with funds and those seeking funds), individuals who are considering Venture Philanthropy as an approach and the organisers mentioned above.

What is Venture Philanthropy?

Concept

The main concepts or elements of Venture Philanthropy, which is seen as *engaged grant-giving, creating maximum value for every pound spent launching or growing a social venture*, are

- Investment – grant-making without expectation of financial return, together with non-financial input or added value such as management or technical expertise. The focus of the investment should be on developing organisational capacity rather than project fixated
- Impact – grant-making with a focus
- Performance measurement – the idea that the business plan for the social venture will incorporate indicators of achievement or progress towards specific goals
- Engagement – a (more) personalised relationship/partnership
- Leveraging – the multiplier effect on organisational capacity and social impact obtained by financial and non-financial added value
- Longer-term – to enable the recipient to build up the non-profit venture, but with
- Exit management built into the business management plan from the start.

(Note that exit management may essentially consist of the development of fundraising expertise so that when the new entity is well-established it will be able to solicit support from more traditional sources.)

- Respect – the importance of ensuring mutual learning and respect, particularly in relation to the provision of non-financial added value.
- Risk – the idea that, as with a start-up business venture, there is a higher risk of failure than giving to well-established charities. (Note, however, that the concept is not limited to start-ups or growing charities “to scale”.)

Risk was linked to a) that inherent in any plan for a new social venture, buying into something which doesn't yet exist, and b) the risk that the venture will survive, but not have the desired effective social impact.

Venture Philanthropy can have several meanings, with different emphases. It is a term which is sometimes used loosely or to glamorise or present as new an approach which could be used to describe current “best practice” among enlightened grant-makers. It has been the basis of the operations of WIN (World in Need) for some 40 years.

It should not be confused with creative financing approaches being developed by CAF and others, or the concept of programme-related investment, where a financial as well as a social return is sought.

It should also be noted that commercial language and concepts such as “investment” can be misleading. They can imply a financial return, and may have implications for governance and control (in the minds of those used to venture capital or other commercial investment arrangements).

A number of points were made in the facilitated discussions. They include

a) Definition and Scope

It was felt that the concept of venture philanthropy should be confined to high-engagement philanthropic giving (i.e. excluding creative financing models with the possibility of a financial return). However, this could include donations which support (“invest in”) income-generating activity by a charity, the profits of which are ploughed back into the recipient charity.

It should be noted that much so-called Venture Philanthropy in the US has in fact been directed to the support of traditional vehicles, often in short-term projects or well-established programmes, rather than in new ideas or the development of organisational capacity. By contrast, some established UK grant-givers have supported radical concepts, new social entrepreneurs and core costs.

b) Added Value

There are several issues around the concept of “added value”. How can one ensure that the donor understands enough about the organisation (and has enough time) to know how best to offer and provide (directly or indirectly) the right kind of help? How can one ensure that the recipient understands enough about the expectations, aspirations and motivation of the potential venture philanthropist to respond positively?

As an example, WIN, with their long experience, contribute in three ways:

- Governance – founding trusteeships, leveraging their own experience
- Finance – WIN’s core funding can attract other funders
- Technical assistance – networks/social capital

Control issues are addressed/minimised by

- Ensuring open and transparent influence
- Developing a quality relationship; it could be two years before funding starts
- Partnership - they are linked together for several years

There was some scepticism about the inherent assumption that all donors can add value. There are issues of time availability, values and scale, so that, for example, leading edge IT expertise which may be the basis of a fortune, may not be transferable or appropriate for a start-up organisation needing basic word-processing, accounting, networking and maintenance support.

Another sensitive issue is whether donor-trusteeship is imposed as a requirement, whether or not it would fill a skills gap on the existing board. (It should be recognised that attitudes may be different in the US, where the concept of the donor/board member, and the “give, get or get-off” approach is well established.)

Pilotlight stressed the importance of effective brokerage for donors giving their time to projects (not as members of a board).

It should be emphasised that strategic involvement and the provision of real added value is very time-intensive

c) Involvement of fund-seekers

A continuing theme was that a relationship based on real involvement, where there is real mutual respect and a two-way learning process, can be hugely rewarding for all those involved.

It was noted that the discussion was dominated by the “supply side”, and while there were several participants with current experience of working with recipient individuals and organisations, the “demand side” was not directly represented. It was also recognised that it was of vital importance to the successful introduction of VP that fund-seekers had confidence and a full understanding of the venture approach and how their plans might best be assisted by it; the approach would not work unless the “demand” and “supply” sides shared understanding and aspirations.

d) Assessment, evaluation, impact

Evaluation is seen as key to the concept and success of VP. The question is whether there are real differences between how a venture philanthropist might work and the approach of leading “traditional” grant-makers and effective charities (large or small) themselves.

Organisations such as the Lloyds-TSB Foundation are piloting an extensive programme of impact assessment.

Many charities have attempted to measure the impact of what they do for some years, lead by their own senior managers and encouraged by donors and (some) trustees. Approaches such as the Balanced Scorecard create value by showing what is unique and important to the charity, and how well it is doing. The basic principles are important for all charities, however funded:

- Vision and strategy drive evaluation
- Evaluate more than one dimension at a time – e.g. finance, social impact, operations, PR
- Agree a few critical performance indicators for each dimension.

It is essential that ownership is with the charity, and the approach should be embedded in the organisation’s planning process. It could be adapted for small and start up operations.

In the discussion it was felt that the degree of experience in evaluation in the sector was not always recognised. Also there is a real danger if the approaches are driven by funders rather than the charities themselves, not least because of the risk of multiple and untenable demands by major funders. (Major funders are already aware of this, and the ACF among others are engaged in reviewing this with their members.)

The challenges of evaluation of non-service delivery activities such as research and campaigning were acknowledged (including issues such as time frame and causality).

It was noted that work is being undertaken on evaluation approaches by organisations such as The Roberts Fund on social ROI and GuideStar. (As reported in our newsletter, this is being developed for the UK under the aegis of the Institute for Philanthropy). It was agreed that for the sector as a whole, not just the potential venture philanthropist, this is a critical area to develop and share best practice.

e) Risk, sustainability and exit management

Any grant-making relationship features risk. Is it different for Venture Philanthropy? The tension created by the need of an organisation for continuing funding and the desire of a funder to limit his/her commitment is also familiar. It was felt that risk (in the eye of the beholder!) can be mitigated by trust, understanding and real knowledge of the environment in which the non-profit is operating. A three-way model linking donor, charity and beneficiaries needs to be recognised, in which the charity is much more than just a conduit for money. Sustainability is more important in terms of social impact than for the charity itself.

It is important to consider the eventual replacement of initial donor funding at an early stage, as part of the business plan. This could be achieved in various ways: for example by charging fees for service provision, investing in fundraising capacity to diversify donors, government funding, creating an endowment.

In the discussion the point was made that most charities have *fundraising* rather than *financing* plans, and a benefit of this kind of debate was to raise the question generally of a mixed funding portfolio. The importance of business plans (and business planning skills) which address these issues and engage the donor(s) in a discussion about exit management and broadening the funding base from the beginning was agreed.

It should be recognised that there were several possible strategies or outcomes:

- Organisation reaches point of viability where no longer dependent on donor
- Closedown when organisation is not achieving its goals effectively
- Closedown when organisation achieves its central mission and can be disbanded
- Potential for merger

What did we conclude?

In the US the impact of Venture Philanthropy in terms of new money coming into the sector is minuscule compared with traditional donors. However, the development of the concept is a stimulus to conventional thinking and a catalyst to move on issues such as evaluation and added value. What we have is an evolving spectrum of approaches with some common characteristics.

Current experience and real case histories are very limited in the UK. Most people who might be interested in the “new” Venture Philanthropy approach are at a very early and exploratory stage. (There are of course long-standing major donors who could fairly be described as venture philanthropists.)

It would be useful to map where certain approaches have been helpful, and what sorts of organisations lend themselves to new approaches.

However funded, the relationship with recipients is critical. It must be based on trust and mutual respect.

Demand and supply are not efficiently matched. To make venture philanthropic funds (and other funds) understandable and accessible needs better brokering, education and information.

What next?

Philanthropy UK (and Pilotlight, as co-convenors of the workshop), does not believe that it is appropriate at this stage to plan a major conference on Venture Philanthropy. There is no in-depth UK experience, few practitioners, and most people are at an exploratory stage. Given our mission and current work-plan for the next 6-9 months, with our very limited resources, this cannot be a priority for *Philanthropy* UK.

However, we believe it could be useful to consider, for the new year, a series of small focused workshops on topics such as

- Performance measurement, evaluation and impact
- Added Value, giving time and expertise; Brokerage
- Capacity building

Participants should include people who are actually involved in these activities in some way!

Philanthropy UK and Pilotlight would be willing and interested in contributing (and Pilotlight have a particular perspective on the issues surrounding added value and brokerage) but we would welcome suggestions and offers from people able to organise and host any of these sessions, and identify appropriate participants.

What else is going on?

We are aware that among the many parallel initiatives which are currently in development there are several which are moving forward on issues relevant to the VP debate, especially on funders as “investors”, outcomes and impact. The new bursts of funding from the public spending review which are being taken forward by the Treasury and the ACU both give high profile to these, ACF has plans for seminars for its members on monitoring and evaluation and the Community Fund is currently engaged in national consultations. Indeed the current issue of Trust and Foundation News, published by ACF, contains an article by Richard Gutch, Director of the Community Fund for England and the UK, about the investor approach. It raises a number of points related to investment, terminology, definition and measurement of outcomes and assessing impact. People who would like to contribute to the debate about these issues are invited to email Richard.Gutch@community-fund.org.uk.

There is also an interesting item related to risk, measurement and accountability in the latest issue (report 104) of the Philanthropy Information Retrieval Project (a useful free monthly email newsletter which is funded by the John D. and Catherine T MacArthur Foundation). It reports that according to one philanthropy observer, truly innovative foundations support a "healthy proportion" of grant programs that ultimately fail. Susan Raymond of Changing Our World Inc. took a shot across the bow of conventional funders who are risk-averse in her Aug. 23 *Observations in Philanthropy* newsletter column. Raymond admitted that this goal of allowing failures is difficult to square with the drive to measure success in grantmaking. But if philanthropists fund only what is deemed relatively safe, Raymond argues, such financing is no more innovative than what happens with government or corporate funds, where pursestrings are significantly tighter. That defeats the social purpose of philanthropy, she suggests. Citing recent findings that foundation leaders are relatively satisfied with the current state of "results-based accountability," Raymond cautions that, though evaluation has its place, surveys and discussions have mostly left unasked, and unanswered, the issue of how accountability affects risk-taking.

Raymond's column is available at: <http://www.onphilanthropy.com/op2002-08-23a.html>.

If you have any comments, or suggestions for further reading, please contact Philanthropy UK.

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