MODELS, METRICS, AND INVESTMENT: MIXING VENTURE PHILANTHROPY AND THE ARTS

BY SEAN R. LEGNINI

MODELS, METRICS, AND INVESTMENT:
MIXING VENTURE PHILANTHROPY AND THE ARTS

A Thesis

Submitted to the Faculty

Of

Drexel University

By

Sean R. Legnini

In partial fulfillment of the

Requirements for the degree

Of

Master of Science in Arts Administration

August 2014

DEDICATIONS

Dedicated to my support team.

Thank you Michele, Mom, Dad, Huey, and Ollie

ACKNOWLEDGMENTS

I would like to extend my appreciation for my thesis advisor, Neville, who remained patient with me throughout the thesis process even when my pace was slow and my thoughts scattered. I would also like to thank Drexel University and the members of the Arts Administration program for allowing me the opportunity to learn from some of the best minds in the arts today. To Brian and Carolyn for taking the time to speak with me, thank you for your valuable input.

Finally, thank you to my wife, Michele, for supplying the coffee on the tough nights and wine on the good nights. Thank you to my parents for giving me the best education I could've asked for and allowing me to pursue my studies wherever I wanted them to be.

Oh, and we can't forget Huey and Ollie whose unrequited love kept me positive.

TABLE OF CONTENTS

ABSTRACT

Venture Philanthropy is an emerging trend in charity that reflects the successes of the booming venture capital industry. It translates the entrepreneurial philosophies focused on business models and scale into the non-profit sector. This study uses interviews with local arts leaders and critical thought to determine whether venture philanthropy has value to the arts and if the arts have value to venture philanthropists. Overall, this study found that the venture philanthropy criteria of measurable metrics, sustainable business models, and mission centric return on investments does not always apply to the arts. In the end, the study shows that venture philanthropy is not all that different than traditional funding models and its relevance to the arts may not be necessary.

INTRODUCTION

The emergence of venture philanthropy is a relatively recent phenomenon that grew out of the speedy growth of venture capitalism in the United States. It is a form of social investment that translates the principles of venture capitalism and investor-entrepreneur relationships into the non-profit and social sector. It can be defined as an approach to funding that focuses on innovative projects, measurable results, and capacity building while providing human capital alongside financial support. Venture philanthropy places an emphasis on sustainable models that allow for organizational growth and capacity building as well as measurable metrics that define organizational success. Organizations that fit the criteria of a venture philanthropist or venture philanthropy fund are often funded for multiple years instead of annual grants and gain business minded expertise as a bonus (Frumkin, 2003).

Mark Kramer, the founder of the Center for Effective Philanthropy, called venture philanthropy "more of an evolution than the revolution it first seemed to be." He argued that venture philanthropy is not so different from how many foundations and private donors already treat the nonprofits they support. He wrote: "Interestingly, the three main elements of venture philanthropy – building operating capacity, close engagement between donors and recipients, and clear performance expectations – are not new at all. Many would argue those have been among the trademarks of effective philanthropists for decades[…]" Kramer is comparing venture philanthropy to the major donors that many organizations rely on already (Kramer, 1).

The European Venture Philanthropy Association (EVPA) even goes as far as to define venture philanthropy as "an approach to charitable giving that applies venture capital principles, such as long-term investment and hands-on support, to the social economy." The EVPA lists the practices of venture philanthropists as the following:

- High engagement with a "hands-on" relationship with the organization, often at the board level;
- Tailored financing by putting money directly towards specific things;
- Multi-year support of typically three to five years to work towards sustainability;
- Non-financial support by using the philanthropist's skill sets to help with things like marketing, strategic planning, and networking;
- Organizational capacity-building to ensure sustainability by improving on current stake holders and creating opportunity for new talent;
- Performance measurement including attainable goals, measurable outcomes, and accountability ("EVPA", 2014).

The idea of performance measurements defines the major difference between venture philanthropy and venture capitalism. In typical venture funding, the performance measurements result in a return on investment, often tenfold on the initial investment.

By Kramer's definition above, venture philanthropy is already a particularly evident funding philosophy used by large donors and foundations when funding major social causes that garner support of donors worldwide. Large charitable organizations run on the support of venture philanthropists and foundations following the venture philanthropy mindset that expect their money to go into capacity building and program expansion. One example is the New York-based clean water initiative, charity: water, which has a hefty operating budget that is completely funded by venture philanthropists, allowing charity: water to grow their organization without sacrificing donor dollars that are instead spent on building wells and pipelines in developing countries. Organizations like charity: water use this support to act more like a business, emphasizing organizational growth, programmatic expansion, and innovation.

Dr. Kimberly Ochs describes the boom of venture philanthropy since it began in the 1990s. In her presentation to the Philanthropy Special Interests Group in a 2008 meeting of the American Educational Research Association, she said: “On the heels of the technology boom over the last two decades, and the economic success of innovative technology entrepreneurs, we are now seeing a broad range of initiatives to apply the strategies of venture capital – a recognized driver of technology innovation - into the social sector.” She continues to say that venture philanthropy has been particularly effective in health care and education (Ochs, 1).

In the arts, venture philanthropy, along with the business models and capacity growth it brings with it, seems to be sorely lacking. This study takes a closer look at venture philanthropy and attempts to apply it to the arts. By examining where venture philanthropy is evident, how effective it is, who is participating, how business models are sustained, and what metrics are used to determine success, I will be able to develop a clear understanding of the standards of venture philanthropy so that it can be more easily applied to arts organizations. Interviews with leaders at two Philadelphia-based arts organizations gave me a deeper understanding of where the arts and venture philanthropy may be conflicting and allow me to expand upon my formal research of the subject.

I anticipate that I will see defined metrics as a major barrier for arts organizations to enter into a venture philanthropist's portfolio. In the arts, clear metrics are not as common as, for instance, in causes like hunger. A venture philanthropist can invest their dollar and know that for each dollar, they are feeding three children. Instead of a financial return on investment, they are looking for social returns. In the arts, the most defined metrics available are non-mission related metrics like ticket sales or subscription customers which reflect a financial status of the organization but do not reflect a particular return on investment that is mission centric, like feeding a child.

CHAPTER ONE – LITERATURE REVIEW

Where Is Venture Philanthropy Most Evident and Where Does the Money Go?

Rob John, of the Said Business School at Oxford, surveyed 50 venture philanthropists and venture philanthropy funds worldwide in his comprehensive working paper "Beyond the Cheque." John found that the majority of venture philanthropy funds were being distributed through non-returnable grants, meaning grants that did not require any money to be returned to the grantor, and loans at "below market rate or other favourable terms."(John, 14)

Perhaps most interestingly, John's survey also asked which sectors were supported. The largest of the supported sectors are education, children and young people, and social entrepreneurship. The rest are health, international development, environmental/renewable energy, refugees or asylum seekers, disabilities, mental health, social enterprise, minority ethnic issues, and the second smallest: "other sectors," where perhaps the arts might lie. John's paper also reflects the venture philosophy of funding fast growth and scaling by revealing that 73% of the respondents revealed that they had supported small organizations undergoing rapid growth or early stage startups with only 20% of the support going to established organizations (John, 2006).

The most supported sectors revealed in John's survey reflect organizations devoted to social causes that "benefit society". John states:

> "Unsurprisingly, venture philanthropists funds offer support across a range of popular social sectors, although it is interesting that nearly 53% claim to fund 'social entrepreneurship,' which is not a sector as such, but indicates the kind of individual venture philanthropy funds look to back. Social entrepreneurs are defined by the Skoll Centre as 'society's change agents; pioneers of innovations that benefit society.'" (John, 14)

This is reflective of our nation's donor statistics, which show education, human services, health, and environment as the largest sectors that see donations each year (John, 2006).

According to Rob John, the majority of funds distributed by venture philanthropy firms go towards organizational expenses. He says: "Much venture philanthropy activity focuses on scaling up the social impact of a social purpose organization." Venture philanthropy seems to encourage investment in overhead with the expectations of organizational improvement. The financial support of venture philanthropists tends to come in large sums through grants, loans, and even some equity-like instruments (John, 16).

It is clear that venture philanthropists and venture philanthropy funds provide more than just financial support. Typically, this money is coming from established business minds and John's survey proves just that. Every respondent on his survey said they provided strategic counseling on every matter with over 80% including financial management and accounting, 50% including legal support, 80% access to networks, and 90% governance amongst other services provided directly to each organization (John, 2006).

The investment of time, energy, and people into an organization is something sorely needed in the arts. The most successful arts organizations are the organizations that have both an artist and businessperson at the helm. These organizations have shown the ability to grow their programs, expand their reach, and build their own capacity. The financial management, legal support, access to networks, and organizational governance that could be provided by a venture philanthropist can mean a complete shift in an organization's day to day operations.

The focus on board governance as a strategic role implies an organizational view on funding. While the money may get directed to certain programs or certain organizational capacity building processes, the non-financial support of board governance gives a non-profit an increased level of expertise. John writes:

> "The second most popular service, offered by 85% of venture philanthropy funds is 'strengthening board governance,' with 93% of funds delivering this in-house. This is worthy of note, and strengthens the view that venture philanthropy funders seek a 'whole organization' perspective rather than focusing on discrete programme delivery aspects of the non-profits they support. Since many venture philanthropists may have more experience of for-profit boards, it is a challenge for researchers to further examine the effectiveness of this example of non-financial support." (John, 16)

Venture philanthropy's success and growth made it so appealing that, in 2009, President Obama created a governmental version of venture philanthropy called the Social Innovation Fund. The fund is a mix of public and private money that is used to help solve community problems in the three "priority areas" which are economic opportunity, healthy futures, and youth development. The fund was recently validated when its budget was raised from $45 million to $70 million (Light, 2010). A perfect example is the $2.4 million grant awarded over two years to the city of Philadelphia in 2010. The grants specifically supported job-training efforts and were supported by both local foundations and private corporations. The result was the creation of thousands of opportunities for career services and jobs specifically for low-income individuals ("SIF Investment Report", 2013). While some of the programs implemented by the Social Innovation Fund have been successful, it faced its fair share of issues with its lack of transparency. Criteria for proposals are still unreleased and there has not been a clear understanding of why certain programs received funds while others did not (Light, 2010).

Though the arts is missing from the three "priority areas," arguments could be made that the National Endowment for the Arts operates in a similar way that the Social Innovation Fund does. The only difference is the strategic partnerships with for profit corporations. Funding from the National Endowment for the Arts trickles down from government funds to organizations. Though the money is scarce, and is only a small percentage of the annual arts funding picture, an investment philosophy from the National Endowment from the Arts could create a positive effect. The Social Innovation Fund's support of job training instead of supporting factory growth in Philadelphia, for example, is an act of creating capacity for an existing industry. A similar mindset from the National Endowment for the Arts, then, could create capacity in city wide arts projects through arts related training and fund things like youth development, education, and cultural impact who now have the proper support to sustain it.

How Effective is Venture Philanthropy?

In 2004, Venture Philanthropy Partners released a report titled "High-Engagement Philanthropy: A Bridge to a More Effective Social Sector" in which it discusses venture philanthropy investment strategies in organizations and what it meant to them. Dialogues with organizations that have experience venture philanthropy reveal the positive and sometimes negative effects a partnership with a venture philanthropist can create ("High Engagement Philanthropy", 2004).

Scale and sustainability is echoed throughout the report: "The dialogues underscore and emphasize that the non profit leaders have bold ambitions that all too often are left unsaid or unspoken. Most found that this investment relationship and the capital provided gave them the opportunity to step back and to think more strategically about their future and what they could do, opening up new possibilities as a result." ("High Engagement Philanthropy," 12). Scaling and sustainability are often things many organizations must sacrifice when left with tight budgets. Forced to divert the majority of their funds into programs, they never have a chance to build capacity or focus on organizational futures.

Just like investment capital into a startup or small organization, venture philanthropy gives organizations a chance to create sustainable practices and build capacity that improves the programs an organization will deliver. From the Venture Philanthropy Partners report, Geoffrey Canada from Harlem Children's Zone said: "One of the intangible things that happened early on was the opening up of possibilities… Most of our visioning is limited by resources. Mostly what we think about is what we can with an additional $50,000 or $100,000. I think I gave [The Edna McConnell Clark Foundation] probably a $2 million vision. So this is not about what we need today. It's about what we're going to need two years from now." The new found resources allows for the Harlem Children's Zone to strategically plan ahead and develop their programs to deliver even more impact in the future ("High Engagement Philanthropy", 20).

An obvious benefit of venture philanthropy is access to large sums of capital but in many ways the biggest benefit for an organization is in the business minded strategies of participating investors. Venture Philanthropy Partner's report describes a relationship between the Venture Philanthropy Partners and Heads Up, a non-profit in Washington, DC that creates educational programs for low-income students:

> "Despite the nonprofit's initial doubts about VPP's approach to strategic planning—such as hiring a large management consulting firm known for its work with Fortune 100 clients to lead the planning effort—the process helped to clarify the strategic direction for Heads Up, and it allowed the senior management to embrace the plan for getting there. Both of the nonprofit's leaders, Vin Pan and Darin McKeever, identified the planning process as critical to helping them form a more cohesive long-range vision for the organization, establish clearer roles for staff and management, and create a much stronger and more involved board of directors." ("High Engagement Philanthropy, 38)

Heads Up has benefited from VPP's investment partnership in other ways, too. Pan and McKeever believe that high-level guidance from VPP quickly raised their expectations of their staff, programs, and outcomes, and it has been an important component of the organization's progress ("High Engagement Philanthropy", 2004).

Bringing in business minds to a nonprofit can create friction in some cases where the bottom line and the mission do not seem to meet. Venture philanthropists' strategies may initially seem to go against an organization's purpose, vision, and mission but in my opinion it is creating a stronger organization that can deliver on their programs in the future. Darin McKeever, executive director of Heads Up, said: "From the beginning, there was a concern about VPP's level of involvement creeping into a level of control and what the ultimate value of the relationship would be." The relationship between Heads Up and Venture Philanthropy Partners eventually smoothed over and McKeever admitted, "One of the key outcomes [of the strategic planning process] was a more highly engaged and aligned board. There is also greater alignment about the mission throughout the organization." Throughout the dialogue McKeever explains the benefits that have come since their engagement with the Venture Philanthropy Partners that includes a stronger board, a more active board, more information and data driven decision-making, increased funding, and generally improved organizational strength ("High Engagement Philanthropy", 32).

Heads Up is not the only success story from Venture Philanthropy Partner's report. Each organization followed a similar path beginning with skepticism and ending with a much-improved organization. Venture philanthropy allows funding for organizational growth that would not normally be available from donors who want to see their money directed towards programs. It gives organizations a chance to rethink their strategies and invest in future programs that can improve upon the impact they set out to create.

Who Are Venture Philanthropists?

The background of a venture philanthropist is what you might expect from someone so heavily focused in returns and capacity building. Take for instance Mario Marino, the founder and chairman of Venture Philanthropy Partners. He has over 45 years of in the trenches experience as an entrepreneur, technologist, and business leader. He co-founded and eventually sold his software company, Legent, for $1.7 billion. After the sale, he retired and focused on fighting social causes. His skills and background lend themselves to capacity building, organizational growth, and sustainability (Marino, n.d.).

Marino is heavy on determining outcomes. His book "Leap of Reason" reexamines how non-profits should manage themselves and pushes hard for organizational leaders to define their goals, set their metrics, and manage outcomes. Marino commented on a very popular venture philanthropy blog called Tactical Philanthropy about these outcomes. He wrote:

> "In my mind, we advance capital market philanthropy every time we help to steer capital preferentially to nonprofit organizations that are clear about what they're trying to accomplish and have evidence (qualitative and quantitative) that demonstrates they are making progress toward these goals. We do even more to advance capital market philanthropy when we help nonprofits to clarify their goals and collect evidence of progress and then make this information widely available to other potential investors." (Stannard-Stockton, 2009)

While not every venture philanthropist or venture philanthropy fund is exactly like Marino, the literature shows that the majority follow the same kind of mindset. A background with heavy emphasis on finance, entrepreneurism, and technology leads to a business-like understanding of social investment. Some of the biggest venture philanthropy firms in the world, like the NewSchools Venture Fund or the Silicon Valley Social Venture Fund, are run by investors and entrepreneurs who have had considerable success in the for-profit sectors.

Venture Philanthropy and Emphasis on Metrics

Venture philanthropy, just like venture capitalism, relies heavily on performance metrics to understand success and create growth and impact strategies. Where you have a focus on the bottom line in venture capital you have emphasis on revenue, users, and overall sales. In the case of venture philanthropy, the emphasis on a double bottom line, where impact and financial stability are equally important, creates a focus on mission critical metrics. Mission critical metrics are quantifiable performance indicators that relate to the mission of the organization. For example, an organization like Philabundance, whose mission is to fight the hunger crisis in Philadelphia, use statistics like “21 million pounds of food processed and delivered” as programmatic performance indicators (“Leading the Way,” 2010).

Venture philanthropists seek a social return on investment when they donate their money that justifies their investment. In many cases, the organizations these venture philanthropists support do not have established metrics or performance indicators yet. Part of the expertise brought on by venture philanthropists is to establish measurable indicators so that organizations can learn and grow their programs.

Metrics and the Arts

Finding qualitative metrics in the arts has always been a difficult endeavor, particularly for mission-critical metrics. For example, FringeArts, a performing arts organization in Philadelphia, has this mission:

> "FringeArts commissions, develops, and presents a range of high-quality contemporary arts, to: support the artists who create this work; challenge, stimulate, entertain, and educate the diverse audiences who that work, provide opportunities for – and investment in Philadelphia-based artists in such a way as to lead the continued growth and health of the local and regional performing arts community; engage fully in the global dialogue and global community surrounding this kind of work." (Fringe Arts, 2014)

It is possible to put quantifiable metrics to some of this mission statement, for instance reaching a particular number of grants awarded or contemporary arts shows each year would represent success on a mission-critical metric. However, it is not really possible to measure accurately how much FringeArts is challenging, stimulating, entertaining, and educating diverse audiences or how FringeArts is supporting artists.

Reports and white papers are abound that attempt to correlate arts and their impact on community in regards to education, crime, and poverty. While connections can be made between arts programs and social statistics, there is not a direct enough relationship to really identify a programmatic formula. Venture philanthropists, like venture capitalists, look for formulas that result in measurable statistics. For example, it is far easier to create an educational program when you know that a similar program with a similar curriculum and a similar staffing structure produced ten college degrees. Then, you can make assumptions that by doubling the size you can double the amount of college degrees. Following the same metric, the path to a college degree from an arts program is much less direct. Instead, an arts program affects some aspect of a student's life which affect's their level of education, which eventually leads them to a college degree.

It is possible to quantify metrics that apply directly to the more ethereal arts-related missions. In some cases, it may take creative thinking, but for the arts it is an important step to take to measure organizational success and create opportunities for growth. For now, though, it seems some arts leaders are pushing back against the use of metrics. Professor Shearer West of the Arts and Humanities Research Council, for instance, called metrics overly scientific. She spoke about a British Academy report on use of analysis and metrics and said it "did not conclude that metrics are never useful, but noted their tendency to alter behavior and argued that they should be used only with caution and to augment, rather than replace expert judgment." (Gill, 1)

The use of metrics in the arts is a complex subject that is not within the scope of this thesis. It is important to note, however, that this may be the first point of contradiction with venture philanthropy and the arts. Oddly enough, some of the first signs of venture philanthropy on the rise were in the arts. In 2001, 700 applicants applied to be a part of the Absolut Angel contest. The vodka-sponsored contest saw four artists compete to win a $50,000 grant to be invested into a program that melded art and technology. This was the very beginning of the rising trend of venture philanthropy, the act of strategically investing time and money into a non-profit organization in an attempt to create long-term success and sustainability using corporate tactics and business strategies. In this case, a $50,000 grant from Absolut is meant to create a sustainable piece of technology that not only generates revenue but also links audience members to an art form. Since then, the Absolut Angel contest has shut down and venture philanthropy seems to have narrowed its focus to a small number of social causes, namely education, hunger, and human rights (Reena, 2001).

A Wired article about the Absolut Angel contest described the "differences between the money people and the arts people" that Reena Jana called "a hurdle." The questions asked of the participating artists included revenue and capacity building questions like Robert Levitan of the now-defunct Flooz.com's "But how would you grow your company?" or "Where will you be five years down the road? An eBay for video art?" Carol Welsh Gray, then the director at the Center for Venture Philanthropy perhaps said it best: "My experience is that venture philanthropy brings together two very different cultures, and that can create disappointment and frustration […] It can be unfair. Nonprofits don't understand outcomes or measurements and venture capitalists or angels don't like the nonprofits' excess verbiage. They want to know the bottom line."(Reena, 1).

Methodology

For the purpose of this thesis, my research and interviews focus heavily on developing business models and quantifiable metrics in the arts in order to create a strong case for the arts to become attractive to venture philanthropists. My background research into the trends of venture philanthropy, impact giving, philanthropy in general, and fundraising for the arts informed my literature review and interview protocol. Besides my background research, I interviewed two arts leaders in Philadelphia. The purpose of these qualitative, structured interviews is to gather an understanding of how venture philanthropy may have already affected the arts and how it could become a potential funding source in the future. It is also a method for me to find out if venture philanthropy is even recognized by leaders in the arts as a viable means of funding. I reached out to 8 different arts organizations consisting of different sizes and disciplines. In the end only two organizations understand what the idea of venture philanthropy was and were comfortable enough talking about it.

My first interview was with Brian McTear at Weathervane Music. Brian is the founder and executive director of Weathervane Music, a young and small organization that produces a series of videos that illuminate the creative process of writing and recording music. Weathervane gives emerging bands an opportunity to record in a highly professional recording environment while filming the entire process. Additionally, Weathervane provides the raw recorded tracks for free to any aspiring producers or mix engineers to practice their talents with professionally recorded tracks. (Full disclosure: I am a former employee of Weathervane Music.)

My second interview was with Carolyn Schlecker at FringeArts. Carolyn is the managing director of FringeArts, an organization that focuses on the performing arts. Alongside their annual festival of theatre and live performance, FringeArts produces some of the worlds most interesting live performance pieces that might not have an opportunity to survive on a more mainstream stage. FringeArts is in the process of opening a restaurant as a secondary revenue stream and as a new way to bring in audiences.

In my interviews, I found that these two organizations are starting to hear more about venture philanthropy and have even had some experiences with major donors that they would consider venture philanthropists. These two organizations are also very forward thinking and have developed business models that allow to them to sustain and grow.

CHAPTER TWO – FINDINGS:

APPLYING VENTURE PHILANTHROPY TO THE ARTS

Diving deeper into the standards and philosophies that venture philanthropists maintain in my literature review set up the importance of sustainable business models and the use of measurable metrics as key indicators of organizational health. I was glad to find in my interviews that these standards seem to fit the organizational philosophies of my two interviews as well. My original expected finding was that venture philanthropy and the arts might have too many conflicting ideas to prove to be a good combination. In my findings, I believe I have found that there is an emerging trend of organizations focusing on their metrics and their business models that show venture philanthropy and the arts can, in fact, work together.

Developing Sustainable Business Models

Sustainable business models are an important piece of any venture philanthropist and organizational marriage. As discovered in my literature review, many venture philanthropists specifically support organizations that already have sustainable business models. In the case that an organization does not have a sustainable business model, venture philanthropist funds are often ear marked for their creation. Sustainable business models allow venture philanthropists to invest their money with a smaller risk factor. It allows them to ensure their money is used on an organization that is going to grow.

Arts organizations, perhaps more so than many non-profit organizations, tend to have business models that generate at least some revenue to support their operations. Theatres and museums have ticket sales and memberships and educational organizations tend to have some sort of program that generates revenue for them. Unfortunately these business models are not necessarily sustainable. In Philadelphia, it is easy to see what has happened with the Philadelphia Orchestra where income was assumed and, after a declining audience and some expensive choices, bankruptcy ensued. While ticket sales have begun to steady again, expenses go up and the orchestra is only now starting to come out of their financial troubles. At the same time, their mission does not really allow them to adjust their programs in a way that allows for creating a sustainable model. For example, we do not see the Orchestra changing their repertoire in order to sell more tickets as a for-profit performance group might do to attract audiences.

Mission creep, the idea that a particular program or funding opportunity might pull an organization away from its central mission, creates a fear in arts organizations and keeps them from adjusting their models. This is not necessarily a bad thing, as the mission of these organizations is probably a strong one and a worthy one. At the same time, creating a business model that sustains does not necessarily have to equate to mission creep.

I spoke with Brian McTear from Weathervane Music about sustainable business models. Weathervane Music records and documents the entire songwriting process from start to finish in a web series called *Shaking Through*. To Brian, Weathervane is a young startup organization, which, in its three years, has done a moderately good job of fulfilling its mission. Brian had a particular distaste with the state of funding in the arts and its reliance on grants and donations. He said about a recent workshop he went to:

> "[The workshop] was specifically about ideas and capacity building… they brought in a separate consultant and she lead this group of 9 or 10 organizations and I gotta tell you, everything that these [organizations] said… the given in everything that they did or mentioned was 'somebody has to fork out the money for this.' Even people who had a spark in their eye talking about their great new idea and they always ended with 'So we're looking for funding' and that would be that."

It seems this is abundantly true in the arts. Smaller organizations in particular seem to have this mindset that, as a public charity, they are not allowed to generate revenue. Brian took a different approach. Weathervane is your average revenue generating arts organization with membership fees and the occasional partnership but to build on that, Weathervane created their licensing program. Brian realized that he had developed a library of unedited recorded music that he could share with aspiring producers or students looking to test their mixing and recording abilities.

Weathervane's new program extends their library of recorded music to educational institutions, textbook creators, and music recording programs. These companies pay Weathervane for their recorded tracks and insert them into curriculum and classrooms. Brian said: "We built this in the modern era… we created membership which is halfway between donation but it also comes attached with really solid member benefits that people really see the value in but that's about as far as its gone. Right now, the whole educational licensing thing... I firmly believe this takes Weathervane from purely a membership and donation based organization to actually making an organization that has a seriously valuable product that can sustain the whole thing." And it has worked. Before, Weathervane's primary revenue source was through donations and paid membership programs but now, with the licensing model in place, Weathervane is able to replace donor revenue with sustainable income. This allows Weathervane to use donor raised funds for expansion and capacity building while finally allowing Brian and his partner, Peter, to move from volunteers to fully paid employees of the organization.

What Brian was not expecting, however, was what this new business model brought with it. Brian met a major donor who was interested in Weathervane and their programs. Initially this donor, who comes from the marketing and technology world, was looking to make a small donation to an organization he enjoyed and supported. Instead, the major donor gave more than he was planning to and took a seat on the Weathervane board. This donor was Weathervane’s first venture philanthropist. Brian said, “We want him on the board in order to watch out for us and watch out for sort of how we set up our business goals and our business metrics. In particular, he said to me ‘The hardest threshold to cross is $1 million. It’s easier to go from $1 million to $2 million than it is from $0 to $1 million.’ So I thought ‘alright, its your job to help us get to $1 million.’”

What Weathervane’s major donor brings to the board, besides financial support, is his experience in the for profit world. Brian recounted his advice on strategies and models moving forward with the licensing program and how invaluable it has been to move the program forward. I asked Brian about this donor’s strategies and he said, “That involves investing in marketing initiatives, investing in things that fill out the initiatives we’re working on right now to make sure they’re successful but to make sure they capitalize the company… make it so we can bring in more money that builds capacity and expand programs.” The donor particularly pressed for programs that would turn his donation into more money. Weathervane’s licensing program does exactly this. Weathervane’s new donor represents a positive trend in donors getting more involved with their donations and bringing human capacity along with their donation. While I would hesitate to call this true venture philanthropy, the philosophies are still there

Speaking with Carolyn Schlecker at FringeArts brought about a similar discussion on evolving models and revenue streams. FringeArts focuses their revenue generation on ticket sales for their annual festival and regular shows. More recently, FringeArts received some donor funding from foundational sources and a few of their major donors to open up a restaurant in their new home in South Philadelphia. The restaurant, which is not open as of the time of this writing, is an effort to generate additional revenue for FringeArts to provide their programs.

Right away in my interview with Carolyn I learned that venture philanthropy was something she with which she was not familiar, especially in the arts. When I gave her my definition and told her a bit about my research, she replied: "What we're doing right now [building a restaurant] is really all new to us… I've certainly not been aware of [venture philanthropy] in the arts but I think it's a good phrase for what we're trying to accomplish here." The restaurant Carolyn is talking about is the newest effort from FringeArts to bring the artistic community together in a collaborative setting and, more importantly for the sake of this thesis, to generate revenue that helps sustain the organization.

It will be interesting to see, after the restaurant has existed for a while, how much sustainability it produces. If it can only sustain the cost of the restaurant, is it still worth it? Based on Carolyn's definition of its purpose, yes. The restaurant is the creation of a new program that, while fulfilling a mission centered duty of fostering artistic growth, is sustaining itself through revenue generation. Carolyn said: "The restaurant is where truer venture philanthropy is involved. We've received a number of contributions not to put on a show but to build a restaurant. And the idea is that that restaurant will eventually throw back some payments to us to support our main mission."

Both of these organizations have taken a giant leap towards a sustainable business model, something that seems to be understandably required by venture philanthropists. Both Carolyn and Brian, however, note that it seems what they're doing is rare in the arts.

Carolyn added at the end of our interview about donations coming in specifically for the restaurant: “Its been people doing it because they hope the end result is that we will be more sustainable… and that’s kind of novel.” It is common to see in many arts organization’s annual reporting that revenue generation is not a primary organizational goal, and there is nothing wrong with that. With that said, however, having supplementary revenue flow to help support an organization is something that venture philanthropists look for. FringeArts’ restaurant and Weathervane’s licensing program, for instance, are attractive options because they add to primary revenue generating programs of memberships and ticket sales.

Defining Quantifiable Metrics

In venture capital, metrics are key to understanding the success of a company's products. Selling products, acquiring users, and converting them to purchasers makes or breaks a business. Venture philanthropy, an offshoot of venture capital, has the same interest. Quantifiable metrics are a key indicator of any organizations performance. In the arts, key performance indicators are metrics that determine the success and failure of key programs and mission-centric projects.

For Weathervane Music, which operates very much like a startup would, metrics help to define the next steps to take for organizational growth. The features and benefits of Weathervane's membership program are all determined by key performance indicators that hint at the growth of a certain type of member. For example, making high definition raw tracks available for download as a key benefit of membership was determined by the numbers Brian saw in downloaded content. With more downloads of the tracks then actual viewer numbers on the episode, the decision was obvious that access to these downloads was what the constituents wanted.

It was clear to me in my interview with Carolyn from FringeArts that the metrics they use to define success are not really things they keep in mind when developing new projects. The impression I got from her was that metrics were something that they thought about mostly during foundational funding processes. "For foundations, there is usually a fairly rigorous reporting… family foundations and smaller foundations is kind of informal, but for [The] Pew [Charitable Trusts] or William Penn [Foundation] when you actually approach them for funding, you have to really include how you are going to measure success, measure impact, document what you're doing, how its going to impact and live beyond the particular funded project. I would say that that is getting much more rigorous then it was in the past. And then with corporate sponsorships, and there are two sides: the philanthropic and sponsorship side. For us its really the sponsorship side which is really a quid pro quo."

Weathervane's metrics are slightly more obvious than many arts organizations. They have to consider downloaded tracks, video views, memberships sold, social followers, and donation growth as their key mission-centric metrics. Where the arts seem to struggle is in the lack of approachable metrics that relate to a social result. That is, when venture philanthropists are looking for social metrics related to things such as hungry fed, students educated, or homeless sheltered, the arts has metrics that are more related to audiences and creative communities. What the arts do have, however, is a connection to education.

With venture philanthropists particularly looking for social returns, the education factor that arts organizations bring is something to really focus on. Whether it is through direct educational programs or the indirect effect arts can have on things like creative problem solving, supplying and striving for those metrics can make the arts more attractive for venture philanthropy.

CHAPTER THREE – CONCLUSION

My research in venture philanthropy and the arts set out to understand if and how venture philanthropy could apply to the arts if, in fact, it had yet to really have an impact. What I had expected to find turned out to be accurate. In my research and interviews, I found that venture philanthropy had little to no impact on arts and cultural organizations as of yet. However, that does not mean there is no chance it will. Still, it comes down to a question of whether venture philanthropy is something that is all that needed in the arts. My findings showed me that true venture philanthropy is not all that different than how many major donors and foundations already work. In some instances, venture philanthropy means a small financial return on investment but in most cases, it simply means multi-year support and more involvement than your typical grant or donation. In the arts, this is already evident.

That being said, it seems to me that the reasons some venture philanthropists have failed to work with arts organizations is two-fold. The lack of progress in creating business models that will sustain an organization make it a risky investment. Why put money into an organization that is going to burn through it quickly with no plan to sustain it? To fight this, arts organizations need to utilize their distinct advantage of having a product that non-charitable persons would pay for to create revenue streams that will support them. In the same vain, using newly invested capital to create capacity and invest in an organization's growth needs to be met with increased revenue generated from giving. Second, arts organizations need to have more of a focus on their mission-centric metrics. Regardless of whether it means bringing in venture philanthropy money or not, defining metrics that represent impact is a necessary practice for organizational and programmatic growth.

So what it comes down to, then, is can venture philanthropy work in the arts? My inclination is that yes, it most certainly can. If an arts organization is willing to work with a venture philanthropist then it should be an obvious choice to begin that relationship. What is most concerning goes back to the Absolut example stated earlier. Can someone who is so arts minded work on creating an organization that runs like a business? I would hope that artists could see the relationship Brian McTear and Weathervane's new major donor has. Bringing in the business forward mind to help straighten up the ship is a wonderful plan that can ensure organizational success for the future. In FringeArts' case, creating the restaurant was a great idea that, had they looked for it, could have been funded, strategized, and marketed by a business minded venture philanthropist. While I fully expect the restaurant to be a successful endeavor for them, I do think they missed an opportunity to have a venture philanthropist fund the restaurant, create an entire business plan and model based on success, and create a solid revenue-generating plan to sell food. Time will tell how the restaurant impacts FringeArts.

Venture philanthropy is a topic that is getting discussion in many fields of social impact these days. The outcomes of venture philanthropy trend towards positive and organizations that meet the standards of venture philanthropists seem to have an affinity for building organizational capacity that does not negatively impact their ability to fund their programmatic activities. It is important for arts organizations to understand the value of venture philanthropy and to keep the venture philanthropy standards in mind when building their organizations. Identifying measurable metrics and strong sustaining business models allows organizations to achieve their mission goals while also ensuring future growth and programmatic expansion.

BIBLIOGRAPHY

"EVPA." EVPA. Accessed April 22, 2014. http://evpa.eu.com/about-us/.

Frumkin, Peter. "Inside Venture Philanthropy." *Society* 40, no. 4 (2003): 7-15.

Gill, John. "Arts Experts Fear Metrics Will Skew REF." *Times Higher Education*, July 24, 2008.

High Engagement Philanthropy: A Bridge to a More Effective Social Sector. Report. 4th ed. Washington, DC: Venture Philanthropy Partners, 2004.

Jana, Reena. "Funding Art for Business Sake." *Wired*, February 2, 2001.

John, Rob. *Venture Philanthropy: The Evolution of High Engagement Philanthropy in Europe*. Oxford University.

Kramer, Mark. "Will 'Venture Philanthropy' Leave a Lasting Mark on Charitable Giving?" *The Chronicle of Philanthropy*. The Chronicle of Philanthropy, 2 May 2002. Web. Apr. 2014.

Leading the Way: Community Report. Report. 2010 ed. Philadelphia, PA: Philabundance, 2010.

Light, Paul. "Stonewalling at the Social Innovation Fund." *The Washington Post*, August 18, 2010.

"Mario Morino | Venture Philanthropy Partners." Mario Morino | Venture Philanthropy Partners. Accessed May 14, 2014. http://www.vppartners.org/bio/mario-morino.

Ochs, Kimberly. "Social Innovation and Education: Examining the Venture Philanthropy Model of International Development." 2008. Accessed March 6, 2014.

Stannard-Stockton, Sean. "Mario Marino on Investing in Nonprofits." Tactical Philanthropy Mario Marino on Investing in Nonprofits Comments. February 6, 2009. Accessed May 2, 2014. http://www.tacticalphilanthropy.com/2009/02/mario-marino-on-investing-in-nonprofits/.

"What We Do." *Fringe Arts*. Fringe Arts, n.d. Web. May 2014.