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# **Unleashing New Resources and Entrepreneurship for the Common Good**

**A Scan, Synthesis, and Scenario for Action**

**January, 1999**

## **Credits**

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# Executive Summary

## Context

A new generation of innovators and entrepreneurs – committed to using market-based approaches to solve social problems – is unleashing new ways of using resources for the public good.

Facing the contradictory phenomena of unprecedented wealth creation and also a growing gap in wealth distribution among the world's rich and poor, new innovators are generating three major waves of change:

- Social entrepreneurs are changing civic and human services, leadership, and institutions to encompass market-based approaches for appropriate scale, impact, and sustainability.
- Business leaders are moving from one-dimensional charity to multi-dimensional methods of achieving corporate citizenship.
- Philanthropists – traditional and emerging – are building on a generation of social investment experiments to devise market-driven and venture capital concepts to intensify the partnerships and shared responsibility of funders and social action organizations.

## The Scan

The W.K. Kellogg Foundation has had a long-standing commitment to promote, expand, and support philanthropy and volunteerism. This interest over several decades has focused on innovations and infrastructure needed at critical moments of change and growth. Thus the Foundation sponsored a scan to document current waves of change, to uncover the emergent needs and opportunities, and to propose options for action related to philanthropy's changing role in nurturing the common good. Some of the key findings include:

## Influences

New innovators are motivated by the following values and beliefs:

- Outcomes/impact thinking
- Market concepts as a driver for designing social products and services
- Investment is more effective than charity
- Wealth creation should be balanced with public responsibility
- Sustainability of social change needs to be supported through philanthropic *and* earned income

## **Expressed Needs**

The needs that surfaced during the scan have been synthesized into three groups:

- *Knowledge management* – capturing, archiving and using knowledge and learning for innovations.
- *Human capacity development* – the development of people and the tools they need for leadership, organizational, financial, and planning challenges.
- *Deal-making* – the coordination of opportunities for finding co-investment partners.

While great promise can be seen within the many different solo creative efforts of social entrepreneurs and emerging philanthropists, the biggest opportunity at this point is to connect these many “tidal pools” of knowledge, resources, and innovation. They need to become a “tidal basin” of synergy that catalyzes activities to new levels of productivity and impact. Right now, there are few places to connect streams of innovative thinking and action. More shared knowledge about the available pools of capital for new ideas and more access to specialized technical assistance for these new challenges is vital.

## **Potential Options for Action**

### **Implementing Mission**

Create a collaborative effort and the necessary structure to catalyze and enrich the current critical mass of market-model activities. This would be done by connecting these activities, creating shared learning, building the collective capacity to innovate and create social value, and identifying opportunities to fund collaboratively.

### **Proposed Future Activities**

- Establish creative places to learn with peers
- Create a knowledge management system to capture, archive, use, diffuse information
- Develop and share effective prototypes and models
- Search and recruitment services
- Provide mentoring, technical assistance, and apprentice-style learning
- Foster connections, deal-making, co-investment
- Ongoing mapping, tracking, and diffusion of good practice
- Share assessment and impact measurement processes and approaches
- Trade and barter “know how” management expertise and products

The core purpose of a new collaboration would be to promote, facilitate, and invest in more effective approaches to social development. It may be a new entity or mechanism is needed for this purpose. Like those it intends to convene and serve, this new entity could be formed and function as a *marketplace* for investors/funders and social innovators/social entrepreneurs from the public, nonprofit and commercial sectors. The investors/funders would be a partnership of current and emerging stakeholders including national and regional philanthropic associations; private, community, and family foundations; and individual philanthropists.

As a community of entrepreneurial developers, investors, partners and learners, the marketplace should be easy to access, explicit about its goals, accountable and transparent to the stakeholders, and, most important, a “hot house” and “magnet” for innovation. Over time, with the building of relationships, trust, and a sense of identity, the marketplace could evolve into a *guild* – analogous to the craft associations of the Middle Ages – an organizational architecture that is once again re-emerging in the knowledge age with its networked economy.

## **Conclusion**

This scan presents an overview of changes and corresponding opportunities related to how philanthropy and social change organizations and leaders are integrating market concepts into their work, value sets, and organizational structures. This paper makes the case that a critical mass of organizations and leaders is engaging in these opportunities, resulting in a perceptible demand for new learning environments and related services, actions and solutions, and spaces for convening.

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## Introduction

How do societal shifts happen? Often it seems that change is sudden.

The lily pond can serve as an illustration. Several days before the pond is completely covered by lily pads the water is only half covered. And a week before that it is only a quarter covered. And the month before that only an eighth covered. So, while the lily pads grow imperceptibly all summer long, only in the last part of the cycle do we notice their “sudden” appearance.

In the “law of tipping points” – a biological change theory – significance precedes momentum. The “tipping” metaphor of the lily pond provides valuable insight into the changes occurring now in philanthropy and the social service/social change arena. Change *is* happening, but it is difficult to fully perceive and understand until it leaps to recognizable critical mass.

This report focuses on a recent scan and synthesis of needs and opportunities emerging from a bubbling up of new resources and innovation devoted to social and economic development. The wellspring for this is an entrepreneurial focus on the common good, creating new partnerships among the commercial, public, and nonprofit sectors. Yet the innovation, perspectives, approaches, and resources are still scattered. Or are they? Are we at a tipping point of change? Are we nearing critical mass?

The scan, conducted in 1998 by the W.K. Kellogg Foundation, explored these questions to determine what might stimulate the unleashing of these new resources and innovation to address critical needs in our society. Among the most striking attributes of this societal shift are:

- A blurring of traditional sectoral boundaries.
- The opportunity to balance an increasingly powerful market sector with a commitment to public responsibility.

- The phenomenon of wealth creation. The late twentieth century is a time of unprecedented wealth creation, both through earned wealth and the transfer of wealth from one generation to the next. At the same time, however, persistent poverty and inequality – especially among women, children, and people of color – is bringing about a growing gap in wealth distribution. New wealth creators and their ideas about balancing market and public responsibility may provide new resources and innovations to significantly improve social and economic change-making and help narrow the wealth gap.

This shift also reflects the larger significance of the profound economic revolution that is occurring as we move from a production-based industrial economy to a new knowledge-based network economy. Organizations of all sectors need to learn to live within this fast-paced network economy. Rapid and turbulent cycles of change are the norm as innovation produces knowledge that changes the environment and then requires more innovation.

The Kellogg Foundation believes that this shift – complete with its paradoxical challenges – could open new opportunities for shaping the future of philanthropy. The scan, with its bird’s-eye view, reveals a variety of needs and opportunities that, if met, could help philanthropy grow and become more effective. These needs and opportunities are outlined in this report, along with some options for action.

## Context

In this era of unparalleled economic growth and its corresponding economic disparity, a new generation of entrepreneurs is becoming increasingly committed to using market-based approaches to solve social problems. The combined trends of wealth creation, wealth transfer, and openness to intersectoral and market-based approaches for social change could attract and unleash an

unprecedented level of new financial resources and human innovation within philanthropy.

Three major waves of change are especially relevant:

- *Social Entrepreneurship* – Social entrepreneurs create social value through innovation and leveraging financial resources – regardless of source – for social, economic, and community development. The expectations for nonprofits to provide services and achieve social change at a larger scale while also diversifying funding resources are motivating social entrepreneurs to invent organizations that are hybrids of nonprofit and for-profit structures. The innovations of social entrepreneurs and the organizational models they are creating require new perspectives and responses from traditional philanthropy.
- *Business and Social Responsibility* – Pressures from an active and vocal civil society, along with enlightened corporate leadership, are motivating many businesses to reconsider how they can be responsible about their business and the communities in which they work and serve their customers. Such responsibility has been shown to lead to increased corporate marketability and profitability. This is creating new opportunities and incentives for the commercial sector to partner with philanthropies, other nonprofits, and government.
- *Philanthropy as Social Venture Capital* – As government devolves, as nonprofits adapt to more entrepreneurial models, and as business reinvigorates its role in social development, philanthropy is also incorporating new approaches for social investment and the creation of social capital. Belief in the value of wealth creation in addressing social change along with the principles of venture capital investment is influencing the practice of emerging philanthropists among the new wealth creators as well as women's, youth, and diverse ethnic groups' new philanthropy ventures. The practices of these new philanthropists are challenging more experienced leaders in philanthropy to

think about changing roles and relationships with grantee partners, using new tools and approaches that stretch philanthropy beyond traditional grantmaking and into more opportunistic and market-based models.

## The Scan

The scan was developed for the following purposes:

- To capture and document a bird's-eye view of the major waves of change relevant to philanthropy (social entrepreneurship, business and social responsibility, and philanthropy as social venture capital).
- To listen to and record the needs and potential opportunities of people and institutions engaged in such changes.
- To propose some broadly conceived activities and mechanisms that respond to the opportunities and needs.
- To help determine a specific role for the W.K. Kellogg Foundation in this broad analysis.
- To inform and motivate other stakeholders to engage in the development of collaborative actions that could unleash new resources for economic and social transformation.

Scanning was done through interviews and discussions with more than 100 leaders, experimenters, and innovators in the following five categories (see Appendix A for a glossary of terms used in this paper):

- *Social entrepreneurs* – social change/social service leaders who are experimenting with new approaches to achieve greater scale, impact, and sustainability in their social development work.
- *Private sector leaders and support organizations* dedicated to increasing the scale and comprehensiveness of socially responsible business.
- *New philanthropies* – donors and philanthropic organizations that are applying new ideas of



social investment, social capital, and wealth creation to investing in nonprofit leaders and ideas, especially social entrepreneurs.

- *Mainstream philanthropies* – established funders with the readiness and motivation to offer resources and credibility to increase the learning and effectiveness of emerging and established philanthropists and social entrepreneurs.
- *Support organizations and individuals* serving philanthropies and social entrepreneurs. These include financial advisors and institutions, management resource centers, and thought leaders.

The discussions were designed to explore points of view and insights about the trends and influences that could bring about a burst of human innovation and increased financial resources *within philanthropy and social development*. Thus, while the waves of change are broad in scope and provide situational context, the primary focus of the scan was on needs and opportunities growing out of individual and institutional experience *as they relate to philanthropy's role in social development*.

A secondary approach included a review of the literature related to social entrepreneurs, venture philanthropy, intersectoral challenges, business ethics/social responsibility, systems thinking, and social and organizational design and structure. The scan was also informed by a conference at Wingspread on social entrepreneurship in April 1998 and one on creating community wealth in Colorado Springs during November 1998. In addition, reports and documents from the W.K. Kellogg Foundation's experience influenced the scan.

The scan, as a first-stage process, was focused primarily on U.S.-based organizations and experience. Many of the trends and changes transcend national boundaries, however, and the inquiry will be expanded internationally in the future.

## Key Assumptions

In designing and implementing the scan, a set of assumptions was developed. These assumptions attempt to clarify the significance, implications, and possibilities of change accumulating into a major shift that will affect philanthropy. Among them:

- The transfer of wealth to the baby-boom generation is providing an unprecedented opportunity for resources to flow into philanthropy and nonprofit ventures. Estimated to make available approximately \$1 trillion for philanthropy, the sheer size of the transfer of wealth – as well as the anticipated distribution of this transfer into thousands of small- and medium-size funds – will change the face of philanthropy.
- Society's intractable social and economic problems are not solvable through fragmented, single-sector programs – all sectors need to work together, exchanging and sharing traditionally accepted roles.
- The rapid adaptation of entrepreneurial solutions for sustainability of innovations and financing require systems for growing and maintaining services at a scale proportionate to need.
- A critical mass of readiness and momentum for new kinds of social investing is emerging and can be catalyzed for greater impact and effectiveness.
- Without systematic intervention to accelerate and improve what is happening, substantial numbers of new donors and social entrepreneurs could be discouraged, turned off, and lost from philanthropy and social change work.
- Experienced funders are needed as partners with new funders to create bi-directional mentoring that leads to a deeper appreciation of lessons learned from previous experiments as well as to new ideas, learning, and action opportunities for old and new funders.

- A useful intervention into this evolution of philanthropy and social development needs structure and leadership that is formed collaboratively and “owned” by many stakeholders; it cannot be owned and led by one entity.

## Synthesis

While the scan targeted five groups of stakeholders, it was an eclectic and self organizing search for ideas. Therefore, rather than tracking or reporting on quantitative patterns in the interviews and literature, this report summarizes and synthesizes the main ideas and themes.

This synthesis of ideas and voices from the interviews and written literature is organized to correspond with the three major waves of change mentioned earlier.

## Social Entrepreneurship

Social entrepreneurship is driven by two strong forces. First, the nature of the desired social change often benefits from an innovative, entrepreneurial or enterprise-based solution. Second, the sustainability of the organization and its services requires diversification of its funding streams, often including the creation of earned income streams or a partnership with a for-profit.

In response to these different but interrelated forces, nonprofit organizations and their leaders make critical decisions to invent or expand into entrepreneurial models to do their work.

These two forces driving the shift into nonprofit social entrepreneurship are best illustrated by observations from the Roberts Enterprise Development Fund and from Stanford Business School Professor J. Gregory Dees:

*“We cannot escape from the fact that you do not service people out of poverty. At its core, the ability to exit poverty is a question of employ-*

*ment, asset accumulation, and wealth creation.”*  
*Roberts Enterprise Development Fund*

*“Faced with rising costs, more competition for fewer donations and grants, and increased rivalry from for-profit companies entering the social sector, nonprofits are turning to the for-profit world to leverage or replace their traditional sources of funding. In addition, leaders of nonprofits look to commercial funding in the belief that market-based revenues can be easier to grow and more resilient than philanthropic funding.”*

*J. Gregory Dees*

Following are some illustrations of how various forms of social entrepreneurship are taking hold:

Fifteen years ago, when the Ashoka Foundation created its programs to find and support “social entrepreneurs,” the term was little understood and was assumed by many to be simply a synonym for civic leadership. Ashoka has demonstrated that social entrepreneurs invent social reforms and services through the leveraged use of intersectoral resources without limiting themselves to traditional social service or charitable models. Today, the language of social entrepreneurship is accepted in the nonprofit sector and is gaining the understanding and support of other sectors.

The National Center for Social Entrepreneurs has also been operating for more than 12 years, training hundreds of nonprofits to develop market-based strategies for social development. The Center has developed decision-making and assessment tools to enable nonprofits to more systematically determine their readiness for implementing market-based approaches in their work.

Throughout the country, nonprofits are using entrepreneurial models and language to design their services, organizations, and partnerships. They are creating complex organizational structures to link an array of nonprofit and for-profit entities. There are hundreds – and perhaps thousands – of

examples throughout the United States of organizations that are experimenting with enterprise or market-based approaches for solving problems. Many of these are based within traditional organizations such as Goodwill, Salvation Army, Boy and Girl Scouts, community food banks, etc. Some of the newer examples include:

- **Bill Strickland** of Pittsburgh founded and operates the Manchester Craftsmen's Guild, a "traditional" nonprofit that rescues at-risk schoolchildren by using the arts to teach them life skills. He also runs the Bidwell Training Center Inc., an innovative partnership with local companies to train displaced adults for real work in real jobs. In addition, he has developed a jazz concert hall and created a Grammy Award-winning record label, all for the purpose of turning young people with potentially dead-end lives into productive workers.
- **Gary Mulhair** of Seattle founded Pioneer Human Services, a nonprofit agency with an annual operating budget approaching \$50 million from contracts and partnerships with commercial sector companies like Boeing and Microsoft. Pioneer employs more than 800 people, providing opportunities for those at the margins of society to realize personal, economic, and social development through training, employment, housing, rehabilitation, and treatment services.
- **Yolanda Rivera** operates Banana Kelley in the Bronx, a multi-million-dollar community redevelopment organization. Structured as a network that includes real-estate ventures, a paper-manufacturing company, sweat-equity opportunities, citizenship development, training, and employment, Banana Kelley touches the economic, social, and civic dimensions of life for its participants and neighborhood.
- **Vanessa Kirsch** is founder and president of New Profit Inc., a start-up organization for grantmaking, technical assistance, and venture

capital promoting the development of organizations that straddle both nonprofit and for-profit sectors.

In addition, nonprofits are moving beyond their traditional partnerships with government to invent new relationships with the private sector. For example, the Boys and Girls Clubs of America negotiated a \$60 million marketing contract with the Coca Cola Company, widely believed to be the most lucrative marketing deal ever negotiated by a charity. The senior VP at Boys & Girls Clubs of America said, "The debate is over on whether cause-related marketing is a good thing or not; those standing back are going to watch the world march right on by."

With all the optimism and hope that surrounds market approaches to social needs, it is tempting to think of market ideas as a panacea. However, many social issues will require complex solutions that blend market approaches with direct charitable and educational services. J. Gregory Dees, in his 1998 article, "Enterprising Nonprofits" cautions nonprofit leaders that:

*"The drive to become more business-like, however, holds many dangers for nonprofits. In the best of circumstances nonprofits face operational and cultural challenges in the pursuit of commercial funding. In the worst, commercial operations can undercut an organization's social mission. To explore the new possibilities of commercialization and to avoid its perils, nonprofit leaders need to craft their strategies carefully."*

## **Business and Social Responsibility**

In the belief that social change partnerships can be good for business and the common good, increasing numbers of businesses are working with nonprofits to help solve human, social, and economic problems. For example, American Express Financial Advisors teamed with South Shore Bank

to bring investment products – like stocks, bonds, and life insurance – to South Shore’s largely African-American customers in Chicago. This new alliance is one of the most significant partnerships between a Fortune 500 company and a neighborhood development organization. In addition, there are hundreds of long-standing school-company partnerships, with new partnerships emerging every day. One of the newest is the Welfare to Work partnership, which in barely two years has gained the participation and support of 7000 corporations.

In its Summer 1998 issue, *The American Benefactor* criticized private industry as a whole for allocating only 1.3 percent of pre-tax earnings for charitable purposes. However, the journal found some positive trends in the making. Companies that advertise heavily tend to give more than the average. Women entrepreneurs are especially generous, contributing an average of 5.2 percent of pre-tax profits to charity. Family-led firms make a strong philanthropic commitment. And, in large public corporations, there appears to be a trend toward more strategic philanthropy to align self-interest with the larger public good.

The *Business Ethics Journal* monitors corporations for more comprehensive approaches to responsible business. Increasingly, companies are reporting efforts to understand and improve their overall impact in society and in the environment. For example, Monsanto has created a new environmental accounting system that enables the company to track and report on the impact it has on the environment. British Petroleum America has announced that it will publish its first “social report” showing the company’s new policy statements on environment, employees, relationships, and ethics. Many companies are engaging in ethics and social responsibility audits to determine the overall impact of their policies and practices.

Business coalitions such as The Conference Board, The Council on Economic Priorities, and Business for Social Responsibility are actively engaged in facilitating new dialogues on the meaning of corporate citizenship and the balance of market pressures with public responsibility.

The next generation of business leaders also is taking on the challenge of doing well on the bottom line by doing good in society and in their communities. Ethics is now an accepted and usually a required part of the curriculum in most business schools. A new organization, Students for Responsible Business, has emerged to inspire and facilitate the commitment of business school students to a future as responsible business leaders.

Many of the renewed efforts relating to socially responsible business have been sparked by the growing awareness of the blurring of sectoral roles and the increasing need for intersectoral partnerships to solve thorny problems. But the disappearance of strict sectoral boundaries is sparking another trend in the commercial sector as increasing numbers of private sector entities, such as industrial giant Lockheed Martin, are entering the traditionally nonprofit business fields of direct human care and service. In effect, traditional businesses also are engaging in social entrepreneurship.

The privatization of health care represents the largest transition of business from nonprofits and government to for-profit institutions. But other fields such as youth services also are beginning to see transition. For example, Res-Care of Kentucky, a for-profit corporation providing residential care and counseling for youth, has acquired the assets of three nonprofit groups. Most of Res-Care’s 1,500 employees are from the nonprofit world. It has been ranked one of the 200 best small companies in America by Forbes magazine and pays its CEO \$440,000 per year with stock options worth approximately \$12 million. Other examples include: Children’s Comprehensive Services in

Nashville (\$90 million annual revenue), Maximus in Virginia (\$128 million annual revenue), Youth Services International in Florida (\$108 million annual revenue).

For-profit corporations also are creating philanthropy look-alikes. Fidelity's Charitable Gift Fund and Merrill Lynch's and Vanguard's donor services are similar to donor-directed funds that have been developed by community foundations. Fidelity's fund has grown rapidly since it was established in 1992, earning a spot for the first time among the top 10 fund-raising organizations (\$456 million) this past year. While the funds are popular with donors, they have their share of critics, who see them competing perhaps unfairly with community foundations.

### **Philanthropy as Social Venture Capital**

In the May 1998 issue of *The Economist*, an article, "The Challenge for America's Rich," said:

*"For if 1900 marked the high point of one era of wealth creation, with enormous riches for those who seized new national markets just then opening up, 2000 may mark another with the opportunities flowing this time from globalization, new technology and corporate restructuring. America at the last count, had 170 billionaires, compared with 13 in 1982."*

In addition to the 170 billionaires, *The Economist* also noted that the United States boasts 250,000 decamillionaires and 4.8 million millionaires. Observing that today's new rich have the opportunity to be benefactors of extraordinary generosity and to shape the U.S. – and the world – just as profoundly as Carnegie and Rockefeller did in their time, the article also notes that few of the new rich are yet fulfilling their potential as philanthropists.

But many of those philanthropists who are emerging from the new fortunes define themselves as social entrepreneurs. They want to solve defined problems in a specific way. They don't want to simply earmark money for "some vaguely benevolent purpose." They focus on performance. They try to make projects self-sustaining. If manufacturing products has been part of their wealth creation, they often make these products part of their giving. They believe strongly that equipping people with tools and investing in them to go out and create "wealth" is a vital part of their philanthropy. Their interpretation of the age-old equity and access challenge revolves around information and knowledge as the new currency and driving equalizer. While this may smack of naïve optimism based on their own success, these wealth creators want their philanthropy to come out of the paradigm of a "hand up, not a hand out." Right or wrong, they don't want to hear about the have-nots and the negativity associated with this dependency syndrome. Their philanthropy is often targeted to broad economic and educational improvement first, with the belief that other forms of social and spiritual wealth will follow.

"Through high-tech computer and biotech industries, entrepreneurs have had a transformative impact on the economy and on the society," said Catherine Muther, who created a women's foundation using a venture model. "When these entrepreneurs turn their attention to social issues and philanthropy, nothing less than transformative social change is expected."

Muther's philanthropy, the Three Guineas Fund, has a highly focused strategy to help women develop new technology ventures. She has decided not to just spread money throughout the systemic issues that affect women and their access to opportunities. Instead, Muther is choosing to work explicitly on modeling a venture capital process that would provide access to needed resources for women who

are high-tech innovators in the for-profit world. She believes if these women entrepreneurs succeed in the for-profit world they will in turn apply some of their wealth to the public good and contribute to society in general as high producers, or as she says, “leveraged philanthropy.”

The Roberts Enterprise Development Fund (REDF) is another bold example of a funder with a targeted focus (wealth creation and economic development for homeless) using a social venture capital practice with social entrepreneurs to achieve impact. The practice of using a concept like “social venture capital” requires a new language to describe this blended approach of both business and community constructs. In a Stanford Business School case study about REDF, the shift from old language to new includes terms like:

Old	New
Grants	Grant equity
Funder	Investor
Grantee	Investee
Evaluation	Measurement
Grant proposal	Business Plan

“The shift in language used by REDF and, increasingly, others in the field represents a fundamental re-definition of roles, responsibilities and approaches to the funding relationship.... The process of change that has led to the emergence of the ‘new social entrepreneur’ and the ‘social venture capitalist’ has taken place not as a result of the efforts of one or the other. It has happened through a process of individuals on both ‘sides of the table’ concluding that the traditional approach is lacking.” [Stanford University, May 1998]

In their article, “Virtuous Capital” Christine Letts, William Ryan, and Allen Grossman propose that recent traditions of philanthropy have been based on “program efficacy” and that new approaches to

philanthropy are more focused on “organizational capacity.” New approaches to philanthropy, especially venture philanthropy, are moving away from an emphasis on demonstration programs as solutions and moving toward an investment model for innovative ideas and solid organizations that can get the innovations “to market.”

Roots for this venture approach to philanthropy are not totally new. Foundations and individual donors have experimented steadily over many years with market-style ideas and the need for organizations to sustain themselves and to move good ideas to scale. Using grants, loans, and program-related investments, private funders have helped to create breakthrough economic concepts for social development: Charitable organizations like Salvation Army and Goodwill have a long history of selling products to both generate revenues and provide benefits to their target clients. The Grameen Bank micro-loan program has revolutionized global thinking about micro-enterprise development. Women’s World Banking has opened resources and set new standards worldwide for community banking, while dealing with deep-seated opposition to extending credit to women and women’s economic development.

What *is* new about the emerging generation of philanthropists is their potential size and number (there will be many more small- and medium-size foundations in the future); and the values, beliefs, and approaches they bring to the field.

### **Matrix of Stakeholder Groups**

The following matrix provides another way of viewing the growing influences that are converging to create a new paradigm for philanthropy and the nonprofit sector. All names and ideas in this matrix are meant to be examples and serve to illustrate. It is not an exhaustive list.

<b>Stakeholder Groups</b>	<b>People, Leaders: Examples of Change</b>	<b>Institutions</b>	<b>Commonly-Held Values, Beliefs, Theories, “Drivers” of Change</b>
Social Entrepreneurs and Social Innovators	Bill Strickland Bill Drayton Billy Shore Vanessa Kirsch Rick Little  Raul Yzaguirre Rachel Bellow John May Connie Evans  Gloria Guerrero	<ul style="list-style-type: none"> <li>• Danali/Manchester Craftsman Guild</li> <li>• Ashoka</li> <li>• Share Our Strength</li> <li>• New Profit, Inc.</li> <li>• International Youth Foundation</li> <li>• La Raza</li> <li>• Project 180</li> <li>• New Vantage Partners</li> <li>• Women’s Self-Employment Program</li> <li>• Rural Development and Finance Corporation</li> </ul>	<ul style="list-style-type: none"> <li>• Wealth creation is part of the solution of many social and economic problems</li> <li>• Social entrepreneurs are innovators in creating and using financial, social, and spiritual capital and value</li> <li>• Social entrepreneurs pursue a vision of economic and social empowerment through the creation of nonprofit enterprises to provide expanded opportunities for those on the margins of economic and social mainstream</li> <li>• Social entrepreneurs use hybrids of profit/nonprofit ideas and structures to sustain their work/ organization</li> </ul>
Government	Harris Wofford  Eli Segal	<ul style="list-style-type: none"> <li>• Corp. for National and Community Service</li> <li>• Welfare to Work</li> </ul>	<ul style="list-style-type: none"> <li>• Devolution of government to local control</li> <li>• Partnering with other sectors to deliver services</li> </ul>
Philanthropy	Peter Karoff Ted Turner Jim Pitofsky Ed Skloot Sterling Speirn Steve Roling G. Myers/P. Burness Helen Hunt John Abele Catherine Muther Marie Wilson Drummond Pike Mario Morino Jed Emerson Paul Brainerd/ Paul Shoemaker Morgan Binswanger	<ul style="list-style-type: none"> <li>• The Philanthropic Initiative</li> <li>• Turner Foundation</li> <li>• echoing green</li> <li>• Surdna</li> <li>• Peninsula Comm. Fdn.</li> <li>• Kauffman Foundation</li> <li>• Entrepreneurs’ Fdn.</li> <li>• Sister Fund/El Suemo</li> <li>• Boston Scientific</li> <li>• Three Guineas Fdn.</li> <li>• Ms. Foundation</li> <li>• Tides/Thoreau Center</li> <li>• Morino Institute</li> <li>• Roberts Ent. Dev. Fund</li> <li>• Social Venture Partners</li>   <li>• Creative Artists Agency Foundation</li> </ul>	<ul style="list-style-type: none"> <li>• Investment is preferred over charity</li> <li>• Philanthropy/giving back is something everyone can do – regardless of class and amount of wealth. We are a part of an interdependent society, <u>not</u> a one-directional flow of charity.</li> <li>• Venture philanthropy is a charitable endeavor based on risk-taking, innovation, and entrepreneurial spirit</li> <li>• Venture philanthropy and social venture capital emphasize long relationships; operating and program investment; risk management and accountability performance measures; exit strategies</li> <li>• Network grantees working in similar issue areas to share knowledge and practice</li> </ul>
Business and Business Networks	Bob Dunn Greg Steltenpohl Kim Cranston Katherine Fulton James Wolfensohn	<ul style="list-style-type: none"> <li>• Bus. for Soc. Respons.</li> <li>• Odwalla Juice</li> <li>• Soc. Venture Network</li> <li>• Global Bus. Network</li> <li>• World Bank</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge is the driver of the new networked economy</li> <li>• Need civil society for vital customer/market base</li> <li>• Joint ventures</li> <li>• Growing support for comprehensive/strategic rather than fragmented approach to socially responsible business</li> <li>• Social responsibility makes good business sense – can increase profitability</li> </ul>
Consultants and Intermediaries	Richard Steckel Lisa Spinali Juanita Brown Gail Taylor Francine Brody Jerr Boschee	<ul style="list-style-type: none"> <li>• AddVenture</li> <li>• Ripple Effects</li> <li>• Whole Systems Assoc.</li> <li>• KnoWhere Company</li> <li>• Brody &amp; Weiser</li> <li>• Nat’l Center for Social Entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>• Changes in organizational design and structure require changes in organizational leadership</li> <li>• Leaders facilitate and network; they don’t control</li> <li>• PRI/Corporate Partnerships</li> </ul>

Stakeholder Groups	People, Leaders: Examples of Change	Institutions	Commonly-Held Values, Beliefs, Theories, “Drivers” of Change
Thought Leaders	Lester Salamon J. Gregory Dees Christine Letts Peter Drucker Charles Handy	<ul style="list-style-type: none"> <li>• Johns Hopkins Univ.</li> <li>• Stanford Bus. School</li> <li>• JFK School of Govt.</li> <li>• Drucker Foundation</li> <li>• London Bus. School</li> </ul>	<ul style="list-style-type: none"> <li>• Multi-sectoral solutions</li> <li>• Enterprise models</li> <li>• Virtuous capital</li> <li>• Use all resources for a civil society</li> <li>• Enlightened selflessness and purpose</li> </ul>
Media Disseminators		<ul style="list-style-type: none"> <li>• Harvard Bus. Review</li> <li>• Who Cares Magazine</li> <li>• Fast Company</li> <li>• Wired</li> <li>• Fortune/Forbes</li> <li>• Chronicle of Philanthropy</li> <li>• Bus. Ethics Journal</li> <li>• Websites</li> </ul>	<ul style="list-style-type: none"> <li>• Entrepreneurial solutions to social problems is news that’s fit to print (if it has a market)</li> <li>• New approaches to giving need ongoing monitoring and diffusion</li> <li>• Philanthropy needs to open its relations with the media</li> </ul>

## Needs

The needs that surfaced during the scan are inter-related and overlap. Nevertheless, they can be synthesized into three groups:

- *Knowledge Management* – Capturing, archiving and using knowledge and learning for innovation.
- *Human Capacity Development* – The development of people and the tools they need for leadership, organizational, financial, and planning challenges.
- *Deal-Making* – Coordinated opportunities for finding funding/co-investment partners.

More specifically, the needs within these groupings include:

### Knowledge Management

- New philanthropists and social entrepreneurs want to learn from each other and from more established foundations. They want and need new networks that they have helped to create.
- New philanthropy and social entrepreneurship concepts still are only partially formed. There are needs for more research, documentation, dialogue,

etc. Exposure to ideas and theory-from-practice synthesis needs to be embedded within existing learning venues (conferences, intranets, case studies, etc.) as well as the possible development of a more formal “information to knowledge” organization.

- Assessment, evaluation, and dissemination are needed so that many can learn from others’ experiences. This will require conceptualizing new ways for capturing, archiving, tracking, synthesizing, and diffusing information.
- Funders need realistic exit strategies and social entrepreneurs need to devise more options for sustainability.
- There is a continuing need for mapping the emergence of trends, changes, innovations.

### Human Capacity Development

- New organizational models and structures demand new leadership, organization building, management, and financial development solutions.
- Individual innovators and isolated organizations need to connect with others to create more mentoring opportunities.



- Leaders, particularly funders and other gatekeepers of resources in all sectors, need opportunities to get to know each other, to better understand their various perspectives, to build trust, and to discover common interests and goals.
- New tools are needed for more sophisticated capital markets leveraging as well as better measurement of social return on investment.
- Consultants, trainers, and outsourcing partners are needed to work effectively with these new tools and entrepreneurial approaches. A networked economy in the nonprofit sector requires more partnering and alliance-building and will intensify the need for quality outsourcing, rather than owning all expertise within the boundaries of the organization.

## **Deal-Making**

- New philanthropists need opportunities to collaborate and co-invest (when appropriate) with each other and with experienced philanthropists.
- Convening is needed so that individuals and institutions can find their common ground.
- New financial and human resources need to be connected to new social innovators. This will require connecting mechanisms, mentors, and role models. The work requires one-on-one opportunities that develop trust and credibility.
- Opportunities and resources are needed for incubating ideas and networked activities.
- There is a need for developing and testing prototypes of financial tools and instruments that directly serve the business of social development (e.g., charitable component mutual funds, investment in for-profit subsidiaries, etc.).

In summary, while great promise can be seen within the many different solo creative efforts of social entrepreneurs and emerging philanthropists, the biggest need at this point is to connect these many “tidal pools” of knowledge, resources, and

innovation. They need to become a “tidal basin” of synergy that catalyzes activities to new levels of productivity and impact. Right now, there are few places to connect streams of innovative thinking and action. More shared knowledge about the available pools of capital for new ideas and more access to specialized technical assistance for these new challenges is vital.

## **A Scenario for Action**

In the scanning process, it was often suggested that a conceptual framework for action was needed so that a more focused dialogue about acting on needs and opportunities could begin. Participants suggested the development of some options for action that could be critiqued and shaped through dialogue. The following section is an attempt to provide that beginning conceptual framework based on learnings of this scan. It is being offered in the spirit of stimulating creative dialogue.

## **A Conceptual Framework Vision**

*To unleash and leverage new resources dedicated to social development, driven by a blend and balance of market mechanisms and public responsibility.*

Implicit in this vision statement is the desire to reach and inspire donors – large and small – who are experimenting or want to try new partnership and market approaches to philanthropy. Within this aspiration is a picture of the future in which the meaning of wealth is leveraged to include social, spiritual, and community capital – all of which are resources necessary for developing and sustaining the common good.

## **Implementing Mission**

Create a collaborative mechanism to catalyze and enrich the current critical mass of market-model activities. This would be done by connecting these activities, creating shared learning, building the

collective capacity to innovate and create social value, and identifying opportunities to fund collaboratively.

## Goals

- To convene leaders who can initiate and begin organizing a collaborative effort among established and emerging philanthropists. This would be done to meet the categories of needs expressed in the scan (knowledge management, human capacity development, and deal-making).
- To provide “space” and opportunities for the essential conversations that will build new knowledge to accomplish more effective social services/social change.
- To prioritize and create an array of services to meet the three major categories of needs (knowledge, human capacity, and deal-making).

## Principles/Values to Guide a Future Collaborative Mechanism

- An effort to build on the work of both existing and new organizations if they are meeting or have the potential to meet critical needs and opportunities. (Don't re-invent the wheel!)
- A commitment to experiment with market and entrepreneurial models while balancing common good, equity, and access with market efficiency.
- A desire to create social investment partnerships.
- A commitment to quality practice, efficiency and mentoring; a humility for learning, a hunger for discovery; and a willingness to share ideas.
- A commitment to redefining and expanding the meaning and application of wealth and to working with organizations – old and new – that can further effective models for social development.

## Proposed Activities for a Future Collaborative Mechanism

- Create a knowledge management system to capture, archive, use and diffuse information (via technology and person-to-person mentoring). Both successes and failures need to be understood and used.
- Create peer-learning opportunities.
- Develop and share prototypes and models that work.
- Search and recruit staff, board members, advisors, and consultants for donors and social innovators.
- Provide mentoring, technical assistance, and apprentice-style learning.
- Foster connections, deal-making, co-investing.
- Map, track, and diffuse good practice.
- Disseminate the story of evolving philanthropy and social development practices.
- Share assessment and impact measurement processes and approaches.
- Trade and barter “know-how,” management expertise, and products.

## Ideas for Structure/Design of a Future Collaborative Mechanism

The core purpose of a new collaboration would be to promote, facilitate, and invest in more effective approaches to social development. It may be a new entity or mechanism is needed for this purpose. Like those it intends to convene and serve, this entity could be formed and function as a *market-place* for investors/funders and social innovators/social entrepreneurs from the public, nonprofit and commercial sectors. The investors/funders would be a partnership of current and emerging stakeholders including national and regional philanthropic associations; private, community, and family foundations; and individual philanthropists.

As a community of entrepreneurial developers, investors, partners and learners, the marketplace should be easy to access, explicit about its goals, accountable and transparent to its stakeholders, and, most important, a “hothouse” and “magnet” for innovation.

This marketplace would be expansive and open, yet smaller than the overall aggregate of organizations and activities that are functioning now as venture funders, social entrepreneurs, and socially responsible corporations. The intent would be to serve the larger body of social entrepreneur/social venture capital ideas and activities and expand over time as dictated by demand.

At one level, the marketplace would fulfill the rigorous needs of learning from each other, sharing best practices, disseminating information to others – producing and using knowledge. It could also be a place to co-invest in specific social change efforts that make more sense to do in collaborative fashion (such as large scale systems change efforts requiring significant assessment costs and multiple site locations). Different investors and social innovators could partner and sponsor sites based upon their local desires and priorities and yet reap added value from being part of a larger systems change effort. Although investors and innovators might not sit at the same table all of the time, the inclusion of both could enrich the learning and begin to model a new “investment philanthropy” that is a more seamless exchange between money and action.

At another level, the marketplace could open opportunities for participants to act on policy or regulatory issues collaboratively. For example, partners might want to work together to develop new capital market financial instruments that would require government and commercial sector cooperation or even policy change.

Like any marketplace, the decision-making process of choosing to partner, collaborating in a group effort, or “going solo” would be self-determined and vary depending upon the opportunity at hand. Over time, with the building of relationships, trust, and a sense of identity, the marketplace could evolve into a *guild* – analogous to the craft associations of the Middle Ages – an organizational architecture once again re-emerging in the knowledge age with its networked economy.

### **Getting Started – Next Steps**

Using this report as the starting point, the Kellogg Foundation is willing to help take the next step in convening funders/investors and social innovators in some creative planning and formation sessions. The purpose of these meetings would be to consider a set of activities for working together. Participants in this first stage of convening and planning would be those from any sector who already are experimenting with market approaches to solving social and economic problems and who come with a developed sense of motivation and “readiness” for continued collaborative experimentation and learning. Through experience, these potential collaborators understand that:

- Social development/social change is difficult to achieve and requires the efforts of many players using a variety of problem-solving models.
- Successful use of market-based approaches requires leverage and shared investment.
- Achieving success means that innovations need to be replicated and expanded to a scale that is proportionate to the problem.
- Their work will be improved by creating a shared environment for knowledge, human resource development, and deal-making.

*Key questions to be resolved in this series of meetings include:*

- How can we create new kinds of relationships between funders and implementors – beginning with these initial convenings?
- What kind of initial “partnership” support activities and investments should we pursue? Should we drive this simply by the passions of the investors and innovators? How should priorities be established?
- When and how are emerging philanthropists willing to work together? Are they willing to work with established philanthropies?
- How will funding beyond program activities be shared? At what level will partners be willing to share costs for ongoing learning, dissemination, human capacity development, staffing, etc.?

## **Tasks**

A task list for the next six months would be to:

1. Begin to build a collaborative group of partners –
  - first circulate this report, asking for feedback to refine action options and determine levels of interest
  - work with those that respond with significant interest to convene a first formation meeting/retreat (could be a series of smaller group retreats if the group is too large for this first-stage discussion, with a total group retreat later)
2. Develop a start-up partnership structure
  - decide on the level of formality
  - determine roles, resource needs and sources, and priority activities
3. Establish a start-up implementation plan

## **Conclusion**

This initial synthesis of needs and opportunities as a result of conducting this scan leads to several key take-aways:

- The level of creativity and potential for new solutions to old societal problems is truly impressive. While this cadre of innovators still operates mostly in solo fashion, the growing awareness of the value of collaborating is exciting and a major opportunity. Yet this momentum is only beginning to be recognizable and thus the options for catalyzing and nurturing it must stay in sync with the pace of change and readiness, tracking learning and opportunities as they emerge. The challenge at hand is not one of strategy development, but rather one of implementation planning and action phasing according to “market momentum.”
- While this scan has helped to identify a set of needs and opportunities, much work remains to determine the incentives that will push them forward. We now need more framed and directed dialogues that hone in on identifying the benefits and constraints around entrepreneurial collaboration.
- We have a beginning articulation and conceptual framing of opportunities at hand – a proposed abstract and rationale. Once the concepts and frameworks for action are refined through discussions we will need to identify activities as a way of pragmatic engagement. One path to address this challenge is to determine what hypotheses and questions we want to pursue and then find activities to answer them.
- This scan for the most part has involved the more currently visible new philanthropists, dominated by white male leaders from mainstream America. The social entrepreneurs we have engaged, however, are a much more diverse group of people

emerging from community-based leadership roles. Some of the interviews in the scan revealed that the philanthropy emerging from women's funds, youth, and communities of color is highly innovative and ripe for increased support and impact. Future action needs to include both mainstream and emerging innovators. This may well include those entities long interested in increasing philanthropy or working with donors to assist them in achieving their goals.

In summary, this scan presents an overview of changes and corresponding opportunities related to how philanthropy and social change organizations and leaders are integrating market concepts into

their work, value sets, and organizational structures. This paper makes the case that a critical mass of organizations and leaders are engaging in these opportunities, resulting in a perceptible demand for new learning environments and related services, actions and solutions, and spaces for convening. Questions and issues that now need to be pursued include:

- How do we proactively leverage this tipping point of change?
- How will we find the way to collaborative action?
- How will we improve the common good as we unleash and integrate market mechanisms into social development efforts?

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Feel free to copy this report and send it to others. If you want a copy sent to someone, contact Tom Reis.

## Appendix A

### Glossary of Terms

Following are some of the key definitions being offered for the various conceptualizations of venture philanthropy, social ventures, social entrepreneurs, etc.

**Scan:** An informally structured (self-organizing) survey to gauge the current movement or changes within an area of interest.

**Social Entrepreneur:** Plays the role of change agent in the social sector by:

- relentlessly pursuing opportunities to create and sustain social value,
- applying innovative approaches in their work and their funding,
- acting boldly without being constrained by the resources currently in hand, and
- exhibiting a heightened sense of accountability to the various constituencies they serve (communities and investors) for the outcomes they create. (Greg Dees)

**Nonprofit Enterprise:** A revenue-generating venture founded to create jobs or training opportunities for very low-income individuals, while simultaneously operating with reference to the financial bottom line. Nonprofit enterprises are variously known as social purpose businesses, community-based businesses, community wealth enterprises, etc. (New Social Entrepreneurs, Roberts Foundation)

Beyond enterprise specifically created for economic development there also income-producing enterprises developed by nonprofits primarily for their income streams. Some examples of these include: museum stores, eco-tourism, and co-branding of products. (Greg Dees)

**Venture Capital:** Builds an investment model for innovative ideas and capable organizations to get them to market.

**Venture Philanthropy:** Strong leaders with bold ideas plus a venture approach yield effective community organizations. The venture approach includes funding social entrepreneurs in organizations with scale-up potential. Support is long-term and the funder makes substantial commitments to a few rather than smaller commitments to many. Support includes board participation, team building, and a resource network.

**Intersectoral:** The blending of two or more sectors working collaboratively and using their resources, inherent perspectives, experience, and management tools to achieve common goals.

**New Profit Sector:** A new sector of the American economy composed of individuals, foundations, corporations, and other entities that straddle both the existing nonprofit and for-profit sectors. (New Profit Inc. business plan)

**Social Capital:** Social capital begins with human capital: the development of self-sufficient individuals who are mutually supportive and have the generosity and skills to create the structures, organizations, and resources needed for healthy and equitable communities. Ultimately, the ability of social structures and systems to help people achieve their goals for the common good is perceived as “social capital.”

**Socially Responsible Business:** The practice of integrating ethical behavior and proactive positive concern and action for the public good by private sector entities whose main purpose is the creation of enterprise and profit.

## Appendix B

### A Review of the Literature

Documentation and reflection about entrepreneurial and market practices in philanthropy and nonprofits have been increasing as more organizations and funders venture further into experimentation.

This review of the literature attempts to summarize several insightful materials in circulation now among social entrepreneurs, philanthropy, and business leaders.

- In his article, “Enterprising Nonprofits” (HBR, Jan–Feb.’98) J. Gregory Dees describes five major pressures and influences that are pushing nonprofits into entrepreneurial models or commercialization.

These include: 1) A “pro-business zeitgeist” throughout the world; 2) Nonprofit leaders are looking to deliver social goods and services in ways that do not create dependency in their constituencies; 3) Nonprofit leaders are searching for financial sustainability and view earned-income-generating activities as more reliable funding sources than donations and grants; 4) The sources of funds available to nonprofits are shifting to favor more commercial approaches, as few foundations want to provide ongoing funding and most want to invest for short periods in an effort to press grantees to become self-sufficient. 5) Competitive forces from for-profits are leading nonprofit managers to consider commercial alternatives to traditional sources of funding. Dees offers a model called “The Social Enterprise Spectrum” which describes the continuum from the purely philanthropic to the purely commercial. This model follows:

General Methods:	Purely Philanthropic	Hybrids	Purely Commercial
	Appeal to goodwill Non-pecuniary rewards Mission-driven	Mixed motives Some subsidy	Impersonal exchange Arms-length bargaining Market-driven
<b>Key Stakeholder Relationships</b> Primary Beneficiaries:	Unclear or needy not required to pay	Subsidized pricing Price discrimination Third-party payers	Customer able to pay Priced for profit
Capital Sources:	Philanthropic donations/grants	Mixed debt and donations or subsidized investments	Capital market rate Equity and debt
Work Force:	Volunteers with high commitment to social mission	Mixtures of representation and self-selection balancing constituencies	Paid employees, focus on financial rewards
Suppliers:	In-kind donations	Discounts, or mixture of in-kind and full price	Charge market prices
Governance:	Mission-constrained self-perpetuating board stewardship	Mixtures of representation and self- selection balancing	Board elected by owners Property rights Fiduciary responsibilities

Dees also cautions that, “Nonprofit leaders can benefit from finding effective ways to harness commercial forces for social good. But misguided efforts to reinvent nonprofits in the image of business can go wrong. Nonprofit managers are only beginning to learn what it means to search for new solutions to social problems and for effective ways to deliver socially important goods. Strategic and structural innovations should focus on improving mission-related performance. Caught in the current wave of commercialization, nonprofits risk forgetting that the most important measure of success is the achievement of the mission-related objectives, not the financial wealth or stability of the organization.”

- In their article, “Virtuous Capital” (1997, HBR) Christine Letts, William Ryan and Allen Grossman observed that a number of foundations are using the term “venture philanthropy” to explain their strategies and to emphasize their interest in entrepreneurial action. They describe three major forces pressuring philanthropy to find new imagery and strategies: 1) The retreat of the federal government from funding and delivering social services is increasing the demands on nonprofits and their funders...and increasing the demands for effectiveness. 2) New players in philanthropy are raising new questions, particularly those who believe that traditional charity is too focused on

the satisfaction of the giver and not intensively enough on social change and results. 3) Large foundations are searching for new ideas and methods to create, bring-to-scale, and sustain effective social programs.

They propose that foundations need to find new ways to make grants that not only fund programs, but also build up the organizational capabilities that nonprofit groups need for delivering and sustaining quality. They highlighted five relevant and adaptable venture capital practices: risk management; performance measures; closeness of the relationship; amount of funding; and length of the relationship (usually about seven years). The authors are careful to point out that the venture capital model is not appropriate for all instances of grantmaking. Rather, funders should be able to opt – when appropriate – for a venture model. Some appropriate instances include helping to scale-up a proven young nonprofit; or to bring depth to a shallow organization with effective programs and potential.

The following chart presents a side-by-side comparison of venture capital and traditional foundation practice. The information in this chart is adapted from the “Virtuous Capital” article and a subsequent presentation by Allen Grossman at the Northern California Grantmakers Association annual meeting.



Relevant Practice	Venture Capital	Foundations
Risk Management	High degree of shared risk Funds are lost when projects fail	Low risk for foundation High risk for non-profit organization(NPO) Funds themselves not at risk (must be spent)
Amount of Funding	Substantial commitment to raise necessary capital	Partial commitment – management must continue fundraising
Duration/Length of Relationship	5 – 7 years Linked to success	1 – 3 years Arbitrary
Terms of Engagement	Joined at the hip Small portfolios Partnership	Arm's length Large portfolios Oversight
Organizational Capacity Building	Funding to build capacity to successfully execute business plan	Funding primarily for programs, not personnel, infrastructure, overhead
Performance Measures	Clearly defined rewards and risks for all	Funder: reward is in grantmaking NPO: reward is in outcome
Exit Strategy	2 stars, 2 failures, 6 walking dead or wounded	“Myth” of government take-out. Burden on non-profits
Results	1% of capital for all start-ups but 30% of companies that reach IPO stage	Harder to know. Not quantified. Same potential to support organizations to scale?

• In their paper, “Assessing Venture Philanthropy” (1997) Christopher Capers, Michael Collins, and Shahna Gooneratne (students of Professor James Austin’s Harvard Business School Course: Entrepreneurship in the Social Sector) test the Letts et. al. ideas about venture philanthropy by interviewing a cross section of philanthropies and offering some analysis of the spectrum of philanthropic practice. Some interviewees held the view that non-profits have emerged in U.S. society as the independent voice of society to defend against both the state and the for-profit sector. Therefore the involvement of a foundation in the internal working of an organization (as is called for in the venture philanthropy model) would be inappropriate. Other interviewees expressed their frustrations with what they perceive as the disappointing outcomes of current philanthropy and supported major shifts towards the venture philanthropy model. Ultimately Austin concluded that venture philanthropy is an exciting and innovative practice that holds promise for both the philanthropic and social enterprise

sector. But venture philanthropy is not reasonable for every foundation.

The Austin team identified several components of a venture philanthropy approach that already are in place in some foundations. These include: 1) Close relationship between the foundation and the grantee; 2) Length of relationship; 3) Size of investment; 4) Risk management and accountability; 5) Performance measures; 6) Exit strategies. They also identified both barriers and supports for venture philanthropy in the environment.

“Perhaps the growth of social entrepreneurs is the most important reason for adopting the venture philanthropy approach. Just as there is a continuum of social enterprise, ranging from purely volunteer charitable organizations to for-profit businesses that pursue a social mission, there is a continuum in philanthropy. There is a range of strategies available to donors and social entrepreneurs seeking a better society.”

- In the book, *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-Profit Enterprise Creation*, The Roberts Foundation and its Enterprise Development Fund, 1996, describe five types of nonprofit enterprise represented among their projects. These types also are to be found in many communities and include: 1) A SHELTERED enterprise is one that benefits from formal contracting priorities of federal or local government. 2) An OPEN MARKET enterprise is one which receives no preference or priority in the award of contracts. 3) A FRANCHISE enterprise is one established through the granting of a franchise from another, usually nationally active corporation. 4) A PROGRAM-BASED enterprise is one that is grown directly out of the program activities of a social service organization. 5) A COOPERATIVE is a commonly owned corporation wherein workers control a share of the business and maintain voting and other rights while also receiving wages for work performed.

The book also draws out of its own experience the attributes of the successful nonprofit business enterprise:

- Nonprofit organizations have the potential to plan, create, and manage profitable business ventures.
- In order to realize this potential for enterprise creation, the nonprofit must have access to the technical expertise and capital resources necessary to support an effective business planning and enterprise start-up process.
- Successful job-creation efforts must be effectively linked with the provision of housing and support services.
- Economic development in the form of enterprise creation is in many ways rooted in a history of community economic development, and where-as job creation efforts must be pursued as part of a continuum of housing and support services. Thus, the practice of social entrepreneurship constitutes a new evolution of thought and

technique. Simply because one is engaged in the creation of affordable housing or the provision of support services does not mean one has the skills required for business development.

- A key factor in the creation of successful nonprofit enterprises is the presence of a new social entrepreneur.
- Nonprofits should be supported in their efforts to explore their potential for engaging in social purpose venturing. However, all those involved in such a process must recognize that getting to NO may be more important than getting to YES.

- Caroline Williams, in her article “Financing Techniques for Nonprofit Organizations: Borrowing from the For-Profit Sector,” (for the President’s Committee on the Arts and Humanities, 1998, Creative America Report) examines basic financial techniques and transactions in the for-profit sector and explores their application in the nonprofit sector. The categories she covers include: Equity financing, debt financing, mergers, acquisitions, and sales.

She notes, “The corporate world knows that there are finance techniques other than raising equity. The very large nonprofit organizations know this as well. Hospitals and universities issue bonds and can borrow funds for working capital... Ironically, some convert to for-profit status in order to make better use of finance techniques, including raising real equity capital.

“Medium- and small-size nonprofit organizations generally do not have the luxury of using finance techniques beyond fundraising. What is missing in the nonprofit sector is financial expertise.

Organizations need assistance in creating, structuring and implementing more complex financial structures. It is not just a matter of the for-profit types on the board telling the organizations to become more business-like. The nonprofit organization, like the for-profit, needs access to expert assistance.”

She proposes that there is a range of creative financing options for nonprofits:

- Creation of charitable component mutual funds.
- Program-related investment loans for working capital purposes—for program innovations and/or infrastructure.
- Use of PRIs for debt restructuring.
- Use of PRIs for capital to acquire for-profit subsidiaries that complement the nonprofit's mission.
- Creation of debt-funding vehicles.
- Mergers that improve a nonprofit organization's ability to carry out its mission.

- In his paper, "The U.S. Nonprofit Capital Market: An Introductory Overview of Developmental Stages, Investors and Funding Instruments" Jed Emerson characterizes the flow of resources into nonprofit organizations as "capital investment" for educational and human services. Traditional fund-raising devices of grants, annual campaigns, direct mail, endowment campaigns are all ways of raising "capital" for essential services and social change activities. However, Emerson proposes, "At a minimum...the Nonprofit Capital Market of the past will not be that of the future."

The paper presents a basic framework for understanding the nonprofit "capital market," discusses the types of organizational players active within it, and outlines various capital instruments used to support the sector as a whole. Describing levels of funding from seed support through intermediate

and then senior stages (e.g. self-capitalization and earned income) the paper also describes traditionally known as well as new sources of funding. Most intriguing among the new options are greater use of loans and lines of credit, as well as opening up equity options such as market-based bonds and investments.

While advocating for a greater use of venture philanthropy practices, the paper acknowledges that financing the growth of nonprofits and/or their for-profit start-ups is difficult. Emerson claims that the nonprofit capital market is further hobbled by numerous issues including: absence of market standards; lack of proven methods for demonstrating return on investment, and lack of knowledge by both nonprofits and funders about capital options available.

This paper serves as a good introduction to the Nonprofit Capital Market, its players and investment instruments. Pressures and demands on the nonprofit sector require that leaders and funders work creatively to deliver the best service at the appropriate scale, while making use of the capitalization method that is appropriate to purpose and strategy. The paper enables both leaders and funders to begin thinking in these terms.

## Appendix C

### Bibliography

The scan was informed by a variety of materials and publications. In addition to directly substantive sources on social entrepreneurship, philanthropy, and business social responsibility, references were consulted on organizational design and theory; business development; economic trends; leadership development; and ethics.

The following bibliography includes most of the books and articles consulted either for comprehensive study or for reference.

#### Philanthropy & Social Venture Capital:

“The Challenge for America’s Rich.”  
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<http://www.americanbenefactor.com>

Ashoka: Innovators for the Public  
<http://www.ashoka.org>

Brody and Weiser  
<http://www.brodyweiser.org>

Business for Social Responsibility  
<http://www.bsr.org>

Center for Venture Philanthropy–  
Peninsula Community Foundation  
<http://www.pcf.org>

Cone Communications  
<http://www.conenet.com>

Drucker Foundation for Nonprofit Management  
<http://www.pfdf.org>

echoing green foundation  
<http://www.echoinggreen.org>

Ernst & Young Center for Business Innovation  
<http://www.businessinnovation.ey.com>

Ewing Marion Kauffman Foundation  
<http://www.emkf.org/entrepreneurship/index.html>

Fast Company Magazine  
<http://www.fastcompany.com>

Global Business Network  
<http://www.gbn.org>

Institute for Nonprofit Enterprise  
<http://www.ine.org>

Joint Venture: Silicone Valley Network  
<http://www.jointventure.org>

National Center for  
Social Entrepreneurs  
<http://www.socialentrepreneurs.org>

National Foundation for Teaching Entrepreneurship  
<http://www.nfte.com>

New Schools Venture Fund  
<http://www.newschools.org>

Newtithing™ Group  
<http://www.newtithing.org>

Nonprofit Enterprise and Self-Sustainability  
Team (NESsT)  
<http://www.nesst.org>

Philanthropy Journal Online  
<http://www.pj.org>

Roberts Enterprise Development Fund  
<http://www.redf.org>

Share Our Strength  
<http://www.communitywealth.org>

Students for Responsible Business  
<http://www.srb.org>

The Conservation Company  
<http://www.consco.com>

The Enterprise Foundation  
<http://www.enterprisefoundation.org>

The Entrepreneurs Foundation  
<http://www.the-ef.org>

The Learning Institute of the Society for  
Nonprofit Organizations  
<http://www.danenet.sicp.org>

The Limmat Foundation  
<http://www.limmat.org>

The Philanthropic Initiative  
<http://www.tpi.org>

Who Cares Magazine  
<http://www.whocares.org>

Wisconsin Women's Business Initiative  
Corporation  
<http://www.wwbic.com>

Women in Community Service  
<http://www.WICS.org>





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