



High-Engagement Philanthropy: A Bridge to a More Effective Social Sector

Perspectives from Nonprofit Leaders and High-Engagement Philanthropists

High-Engagement Philanthropy: A Bridge to a More Effective Social Sector is the fourth report in a series produced by Venture Philanthropy Partners (VPP) and Community Wealth Ventures. VPP is committed to sharing knowledge for the benefit of those who are helping—or exploring new tools to help—nonprofit organizations become stronger, more effective, and more enduring. VPP's reports survey the fields of venture philanthropy and high-engagement grantmaking, and they offer new research and tools to advance management practices in the nonprofit sector. Prior reports in this series include:

Venture Philanthropy 2002: Advancing Nonprofit Performance Through High-Engagement Grantmaking

Venture Philanthropy 2001: The Changing Landscape

Venture Philanthropy 2000: Landscape and Expectations

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Prepared by Community Wealth Ventures, Inc.



Venture Philanthropy Partners (VPP), a nonprofit philanthropic investment organization, is working to improve the lives of children from low-income communities by pursuing two interrelated goals. First, VPP provides growth capital and strategic assistance to build, strengthen, and scale high potential community-based organizations serving the core developmental, learning, and educational needs of children of low-income families in the National Capital Region. Second, VPP joins with others in our field to inspire philanthropists, corporate and nonprofit leaders, and public policymakers at the local, state, and national level to help increase the effectiveness and flow of capital, talent, and other resources to nonprofit organizations meeting the core needs of children.

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Contents

1. Acknowledgments	4
2. High-Engagement Philanthropy: A Bridge to a More Effective Social Sector By Mario Morino and Bill Shore	7
3. Dialogues with Nonprofit Leaders and High-Engagement Philanthropists	23
The Edna McConnell Clark Foundation and Harlem Children’s Zone	23
Venture Philanthropy Partners and Heads Up	37
NewSchools Venture Fund, New Profit Inc. and New Leaders for New Schools	55
The Rockefeller Foundation and the International AIDS Vaccine Initiative	73
Robin Hood Foundation and The HOPE Program	89
The Center for Venture Philanthropy of the Peninsula Community Foundation and lead partners in the Assets For All Alliance	105
4. A Special Acknowledgment	118

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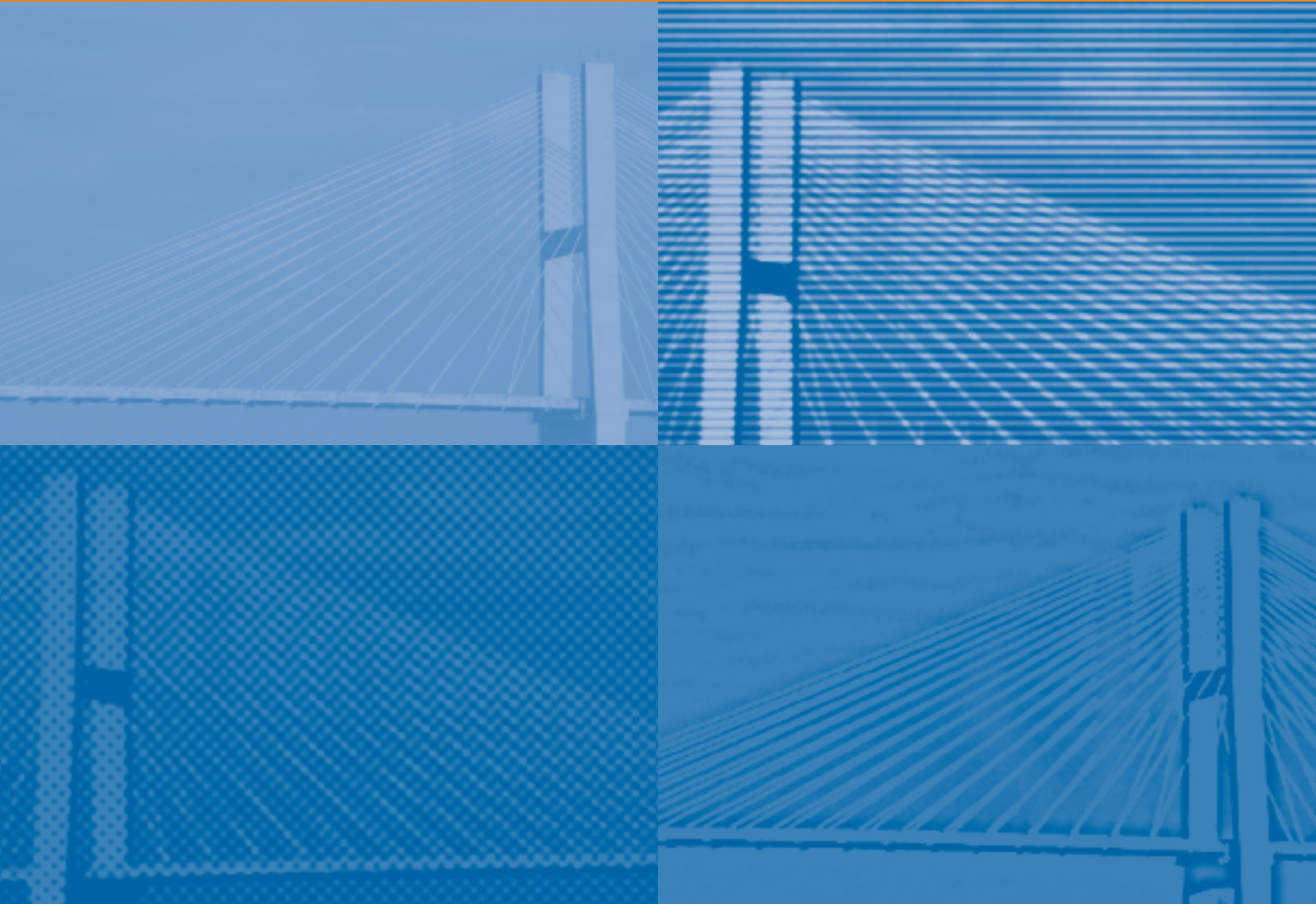
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High-Engagement Philanthropy: A Bridge to a More Effective Social Sector

By Mario Morino, Chairman of Venture Philanthropy Partners, and
Bill Shore, Chairman of Community Wealth Ventures

The central point

The funders and nonprofit leaders in this report, like many others in the field, seek to contribute to a more effective social sector. At the core of increased effectiveness and growth of nonprofit organizations is funding. Yet the way we fund nonprofits often prevents them from achieving what they could do and certainly from being able to meet the latent demand for their services.

The lack of capital and the means to distribute it effectively to build strong and healthy organizations are what keep most subsectors of the nonprofit field from developing stable, sustainable organizations. This is even more pronounced for a certain type of capital, growth capital, the money that enables organizations to invest in themselves so they can grow, build, improve, and strengthen their organizations, products, and services for greater scale and impact.

The lack of capital turns scaling an effective and high-performing nonprofit enterprise into a Herculean task, akin to lighting a thousand fires in communities across the country without the benefit of matches, but rather by relocating one log at a time from the original campfire, tending it to keep it burning, seeking to ensure the replication of the same initial conditions. This is such an inefficient and exhausting process that it is likely to wear down and wear out all those who engage in it, leaving them spent long before they achieve their goals.

Capital, the money that allows most nonprofits to acquire facilities and build physical plants or stabilize and fortify an organization by acquiring technology and better developing staff and systems, is scarce and hard to secure. Even if this capital were available, better systems or “market mechanisms” are needed to ensure its flow to the most effective organizations. Growth capital—the money that allows nonprofits to respond to opportunities within their grasp and grow and scale their organizations to mission—is even scarcer and harder to secure. By growth capital we don’t mean to imply merely the additional money that better fundraising might yield. Rather, we mean access to specially created capitalization tools and instruments, including investment capital and debt financing, designed to enable high-performing organizations to build and scale.

This essay is followed by edited transcripts of six dialogues between high-engagement philanthropists and their investment partners that provide a window into the ongoing give-and-take nature of high-engagement philanthropy, highlighting its benefits and pitfalls and depicting the push and pull inherent in and essential to authentic partnership. The essay offers an interpretation of the dialogues as well as insights from Mario Morino and

The lack of capital and the means to distribute it effectively to build strong and healthy organizations are what keep most subsectors of the nonprofit field from developing stable, sustainable organizations. This is even more pronounced for a certain type of capital, growth capital.

Bill Shore's personal experiences in philanthropy and the nonprofit sector over the past decade.

As we read these six dialogues, we were impressed by the candor between funders and their investment partners. We were struck by the hard work the nonprofits are committed to accomplishing and the risks they were assuming by entering into these new, untested partnerships with funders. And the funders and nonprofits leaders were explicit as they spoke to the greater effectiveness that high-engagement philanthropy stresses—building stronger management teams and boards, investing in outcome assessment, improving product and service quality and delivery, and other strategic ways to improve effectiveness and increase scale.

What was most striking to us, however, was something they *didn't* say, but that we know from conversations, before and since, is much on their minds: Greater effectiveness and access to capital are inextricably linked *and* the challenge facing funders and nonprofits alike is a lack of access to capital—money to fund and grow nonprofits—and the means to distribute it effectively.

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A belated introduction

Venture Philanthropy Partners (VPP) and Community Wealth Ventures have collaborated to produce several reports to advance high-engagement philanthropy and contribute to building the field. Prior reports surveyed organizations engaged in venture philanthropy and high-engagement investments [grantmaking] and described the nature of their approaches.

At Venture Philanthropy Partners, our first-hand experience, coupled with what we learned and observed from other funders and nonprofit leaders, suggested that sharing these experiences, even at this early stage, would be of value to those interested in a more effective social sector, from high net worth donors and foundations to public policy makers and nonprofit leaders seeking to work with these philanthropists. Based on our earlier collaborations and in discussions with others, VPP and Community Wealth Ventures felt that these lessons learned could be best conveyed by capturing dialogues between philanthropists and nonprofit leaders who would share the experiences they were living.

We acknowledge that any effort to put a stake in the ground about making philanthropy more effective is a humbling experience. There are so many facets of the challenge, yet most of us develop our perspective from a set of experiences representing just one narrow slice.

The conclusions and opinions we express are limited to what highly engaged philanthropy—often referred to as venture philanthropy or the re-engineering of philanthropy—aspires to accomplish, why, and what vacuum it seeks to fill. We are not discussing whether such highly engaged philanthropy can be declared effective in doing so. It is simply premature to make such judgments.

The views in this essay are wholly those of Mario Morino and Bill Shore. They do not necessarily reflect the opinions or conclusions of any of those, whether funders or investment partners, who were generous enough with their time to participate in the dialogues.

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We feel fortunate to have the ongoing input and suggestions of many experienced practitioners, academics, advisors, and other experts in various fields who we reached out to, all of whom are acknowledged in the report. They gave us guidance and strong critiques. While they did not always agree with us, and bear no responsibility for what follows, they were generous with their opinions and no doubt made this report more focused, balanced, and fair than it would otherwise have been.

The road we’ve traveled

New wealth creates new philanthropy. From Andrew Carnegie and John D. Rockefeller to Bill Gates and Ted Turner, whenever and wherever emerging industries have spawned new fortunes, new philanthropic initiatives have been sure to follow.

If new wealth creates new philanthropy, then what does new philanthropy create? It creates dialogue, in public and private, reflecting vigorous, animated soul-searching on how such precious new resources can be best put to use to improve schools, health care, and the other delivery systems for basic human needs. And, hopefully, it leads to transformational change. This report attempts to capture and learn from a sampling of such dialogues and provides a glimpse of the changes, both subtle and dramatic, that these innovative funders and nonprofit leaders are introducing to their work.

Today we are witness to a new stage in the evolution of philanthropic strategies and practices. The economy of the 1990s created new personal wealth at levels never seen before and spawned a new set of philanthropic ambitions to match.

The emergence of a new philanthropy over the past two decades coincides with many government agencies and programs suffering through congressionally mandated budget cuts of enormous proportions. Nonprofit organizations tried to fill the breach. Yet, these cuts must be understood within the broader context of the past 30-plus years, where the devolution and privatization of government services dramatically altered the landscape for nonprofits. These actions fueled growth in the nonprofit sector and, in so doing, increased the dependency of nonprofits on public funding.

Now slowed economic growth, tax cuts, increased demand for more public funding as baby boomers age into retirement, and increased international obligations mean tighter budgetary constraints on a sector so heavily dependent on this source of funding. Huge federal deficits are projected for this and future years. Even greater reductions in domestic spending are likely. This raises the stakes further for how private dollars will be spent. And it intensifies the debate among philanthropists, old and new alike, about how to add the most value in the communities they serve.

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A closer look at high-engagement philanthropy

Philanthropy is a broad label, encompassing many different causes, commitments, intentions, and styles. We've taken a closer look at what has come to be known as "high-engagement" philanthropy, an approach in which the funders or "investors" are directly and personally engaged and involved with their investment partners (in traditional terms, the grantees) beyond providing financial support. Often this engagement takes the form of strategic assistance, which can include long-term planning, board and executive recruitment, coaching, help in raising capital, assuming board roles, accessing networks, and leveraging relationships to identify additional resources and facilitate partnerships. There are a variety of approaches within high-engagement philanthropy and, as with anything new and different, there remain open questions about its effectiveness and value.

With that as a backdrop, here is the rationale for the report and essay. The dialogues presented in this report reflect differing approaches and points of view within the field of high-engagement philanthropy today, highlighting both its benefits and drawbacks. The essay seeks to frame the dialogues by focusing on the challenge of nonprofit fiscal sustainability, which is in our view the underlying theme of all of the dialogues, and to share the lessons learned and insights of the funders and nonprofit leaders who so graciously participated in this effort.

At the outset we should clarify to which part of the nonprofit world our observations apply. The nonprofit sector is composed of large and complex institutions like health care systems, universities, art museums, and cultural organizations, as well as tens of thousands of small, local human service providers that perform with compassion, effectiveness, and efficiency. Many of the former have characteristics that enable them to achieve both scale and sustainability. Many of the latter are volunteer-based with appropriately no agenda or ambition beyond their neighborhood and the immediate tasks before them, nor should they. The strategies of highly engaged philanthropy might not be relevant or useful to either broad category. But they may be relevant to a specific subsector of nonprofit community-based organizations that—by virtue of size, ambition, need, resources, geography, and experience—do break through to another level and find themselves facing challenges associated with scale and sustainability, as well as for aspiring social innovators working to affect large, and in many cases, public systems. Certainly the challenge of the inadequacy of both operating and growth capital, which we discuss, faces the whole sector and not just those organizations dealing with the delivery of social services. However, most of the high-engagement strategies appear to be more applicable to the specific subsector mentioned above.

Scale and sustainability

For the most part, each funder espouses an “investment” vs. grantmaking orientation. Their discussions reveal a stronger focus and deeper investments in a smaller, more select number of investment partners [grantees] than is usually seen among traditional grantmakers and a healthy ambition for the long-term reach and ripple of their efforts.

The participants in the six dialogues are innovative entrepreneurs in philanthropy today. While there are some high-level similarities among new players like NewSchools Venture Fund, Peninsula Community Foundation, New Profit Inc., and Venture Philanthropy Partners, there are marked differences, as in the case of Edna McConnell Clark Foundation, which is an effort at repositioning a foundation, and the International AIDS Vaccine Initiative (IAVI), which was spun out of the Rockefeller Foundation. This nascent field itself is far from converging.

For the most part, each funder espouses an “investment” vs. grantmaking orientation. Their discussions reveal a stronger focus and deeper investments in a smaller, more select number of investment partners [grantees] than is usually seen among traditional grantmakers and a healthy ambition for the long-term reach and ripple of their efforts. They also reveal a highly rigorous selection process that seeks to find—and then invest in and support—organizations that are already effective in what they do and offer the promise to be truly high-performing in their field.

The dialogues underscore and emphasize that the nonprofit 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. But, talking about bold visions and doing something about them are two different things. That's why the dialogues illustrated that for these nonprofit leaders to achieve their goals it takes a lot of money and a lot of time. And, beyond bold ambitions and lots of money, the dialogues highlighted six other areas of great importance: strong leadership, the vital role of public funding, leveraging the funders' networks, partnerships and joint ventures, the reality of the exit strategy, and coping with how difficult building and scaling organizations can be.

Access to capital: the unstated need

The dialogues convey the candor of the relationship between funder and nonprofit, how their attitudes toward what is possible have changed, the accomplishments they are making together, and the lessons they are learning. However, it was what these philanthropists and nonprofit leaders left unsaid that we believe represents the invisible thread to their work and to the challenge facing the sector: the lack of sufficient funding—growth capital—to build strong and healthy organizations is what keeps the sector from leveraging its assets and knowledge to improve, grow, and scale its most successful and effective organizations.

Most of the organizational challenges that the investors [funders] and investment partners [grantees] discuss in these dialogues include lack of management depth, ability to recruit and retain leaders, inadequate investing in infrastructure, etc. All of these problems, we believe, stem from a lack of growth capital or are exacerbated by it. Similarly, many of the efforts of funders to enhance the performance and effectiveness of their investment partners are designed to see them move toward, if not achieve, fiscal sustainability, the ultimate exit strategy. As a result, each has a stake, whether stated explicitly or not, that increased capital will flow to these strengthened organizations that are also better able to convey the outcomes they achieve. In this way, the high-engagement strategies so explicitly discussed in the dialogues and the issue of access to capital that isn't mentioned at all are inextricably linked.

We are comfortable in making this inference because we believe that solving the lack of capital problem is absolutely critical to achieving the kind of innovative and effective work that the participants in the dialogues are undertaking. As Bill Ryan wrote in his paper, "Nonprofit Capital: A Review of Problems and Strategies,"² for The Rockefeller Foundation and the Fannie Mae Foundation, "Performance and capital are inseparable. Nonprofits need capital to perform, yet no one wants to provide capital to a nonprofit that is not capable of performing."

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One very pronounced, defining, and determinative difference between for-profits and nonprofits is that the systems for and access to capital for nonprofits are far more problematic than for the for-profits.

The financial services industry and its capital market systems make the connection between capital and performance in the private sector. Yet, when comparisons are made between for-profit enterprise and nonprofit organizations, there are many views regarding their principal differences. Often these are described in terms of talent, focus, accountability, compensation, management, and measurable outcomes. They are not without merit. One very pronounced, defining, and determinative difference between for-profits and nonprofits is that the systems for and access to capital for nonprofits are far more problematic than for the for-profits. **This is even more so for growth capital, the money that enables organizations to invest in themselves, to grow and scale. This form of capital is the hardest for human service or community-based nonprofits to come by.**

The nonprofit sector grew out of volunteer and charitable giving then started receiving philanthropic and public support. The assumption has always been that this combination of private and public giving would keep the sector afloat. Few have realized, until recently, the restraints on the sector because there's no such thing as a capital market for nonprofits.

In the economic marketplace, access to capital is a naturally occurring phenomenon. This is not to say that all businesses have access to all of the capital they want or need, but rather that there are structures and institutions in place, for businesses that can demonstrate a return on investment, to compete for capitalization. When the business succeeds, the capital markets respond.

In the nonprofit marketplace this is simply not the case.

A visibly successful nonprofit certainly sees a market response, but it comes in the form of an increased demand for its service, often to a saturation point. There is not, however, a "capital market" response. They may enjoy an increase in private donations, but rarely equal to the scale of what they are seeking to accomplish. The increase in donations is often a one-time occurrence, not a sustained increase as businesses experience when the market responds to their products. It is unlikely to attract the capital needed to grow their scale and impact. There really isn't a functioning capital market, so to speak, for these community-based nonprofits. This is, in turn, a function of figuring out what to offer those who have capital to invest—in other words, how to identify effective organizations and what makes them worthy of support.

In a society where virtually all rate of return is measured in the same way except for one, that one exception, social return on investment, is sure to suffer by comparison, and ultimately yield a much smaller investment pool.

Carol Welsh Gray affirmed this as her experience: “The Center For Venture Philanthropy ... [has] the mixed blessing of addressing the capital problems of our nonprofit partners, while also experiencing them first-hand. No matter how impressive the outcomes, no matter how well the story is told about social change, we witness and feel tired by the relentless struggle to find capital.”

Many nonprofits organizations need to be better capitalized just for the purposes of financing their basic operating costs. Accordingly, there is often a tension between seeking to acquire this working or operating capital and seeking growth capital. As Eric Weaver told us, “I’m not sure growth capital is the key factor. The key factor, at least as I see it, is that once I invest in infrastructure, staffing, program design, etc., I still have a customer who is unable to pay for my product, and the only way I can do business is to find someone else with money (whether government or a donor of some kind) who will pay instead.... I can invest in a new technology or a new management team member, but each time I do that it means more money I now have to raise on an annual basis to sustain that. For us, the really scarce resource is the reliable, year-after-year funding that comes in with minimal investment of time and expense on our part. It’s the customer who is going to buy that same pair of shoes year in and year out.”

But powerful arguments have been made that if access to growth capital and the means to distribute it effectively get fixed, it will be a major step toward solving, or at least ameliorating, operational financing problems. With access to growth capital, nonprofits are able to develop the capability to secure the sufficient funding they’ll need to operate more effective organizations: working with legislatures to secure public funding, developing and properly costing fee-based services, building donor development systems, implementing outcome assessment and reporting systems, investing in strengthening management, and employing technology in significant ways—all factors that will contribute to achieving sustainability. This is why access to capital is so vital.

It is important to note that when we talk about capital, we are not advocating a completely democratic approach to allocation of funding. In fact, **we stand on the side of a meritocracy, where only those organizations able—or likely—to demonstrate that they are delivering a quality service should have primary access to growth capital.** In the case of many organizations, sometimes including those with reputations for being the most entrepreneurial, this has not yet been conclusively established. The Edna McConnell Clark Foundation, in particular, has been a leader in asserting, “We don’t believe in scale independent of quality.”

But powerful arguments have been made that if access to growth capital and the means to distribute it effectively get fixed, it will be a major step toward solving, or at least ameliorating, operational financing problems.

One important role for high-engagement philanthropists is to encourage and fund their investment partners to commit to outcomes assessment and to establish tracking and reporting systems to monitor their performance. Nonprofit boards also play a vital role in making this happen.

To advance the concept of capital markets for nonprofits, it is essential that investments be made to create the systems and information that allow for the analysis and assessment of an individual nonprofit's performance and comparison within subsectors of the nonprofit field. And, by definition, this insists that much more be done by funders and nonprofit leaders to invest in and support their nonprofit organizations to more effectively assess and report on their performance in achieving their targeted outcomes for those they serve. One important role for high-engagement philanthropists is to encourage and fund their investment partners to commit to outcomes assessment and to establish tracking and reporting systems to monitor their performance. Nonprofit boards also play a vital role in making this happen.

Failure to assess and report on how well outcomes are being achieved explains in part why capital does not currently flow according to "efficient market" theory.

High-engagement philanthropy often steps in to play one of the roles that capitalization structures would play if they existed: pooling substantial amounts (relatively speaking) of capital to be invested in a select number of organizations whose leadership and performance promise high [social] rates of return. Although relatively small and formative at this stage, they create access to capital at a level that simply doesn't readily exist elsewhere in the sector. Like commercial investors, they recognize that an investment that combines capital with strategic assistance and that leverages their own resources and networks is a stronger investment than an investment of capital alone. Yet these efforts are nascent, embryonic at best, when considered at the sector level.

Although it is too early to offer hard solutions regarding capital access, there is a growing awareness that there is a shortage, evidenced by a number of studies and books on this topic. For example, Clara Miller's 2003 monograph "Hidden in Plain Sight, Understanding Nonprofit Capital Structure"³ points out that "adequate, well-structured capitalization is often overlooked as a primary contributor to success. Conversely, inappropriate capital structures can silently undermine nonprofit effectiveness more consistently than factors given far more attention."

She warns that funders, by restricting funding to programmatic growth, “may unintentionally contribute to systemic undercapitalization of the sector.” Clara told us: “The problem, as I see it, is both a lack of access to capital and inadequate knowledge of business dynamics and finance within the sector—even among the ‘bankers,’ i.e., funders.”

Fred Miller, president of The Chatham Group, builds on Clara’s point by saying, “This lack of knowledge of business dynamics and finance is more evident when one considers the co-enabling, be it unintentional or intentional, that occurs when funders (philanthropic and government) fund and purchase services at rates that are less than cost and certainly less than cost plus reasonable capitalization; nonprofits are conditioned to ask for or accept funding at less than cost plus. These dynamics, over time, continue to weaken the nonprofit delivery system.”

Awareness must continue to be brought to a higher level. Credit must be given to organizations like the National Cooperative Bank, Nonprofit Finance Fund, and the Calvert Foundation for their early explorations of solutions to the capital problem and the promise that a growing group of others, like The F.B. Heron Foundation, hold for the field.

Today when many still young human service organizations have reached a level of quality and maturity that leaves them poised to seek scale, high-engagement philanthropy may be the necessary bridge to a time when public policy embraces and funds their growth, or other as yet unimagined capital structures are developed to meet new challenges.

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High points from the dialogues

The six dialogues have been culled from many hours of conversation and edited for concision to make them readable in their entirety. The dialogues yield a wealth of insights about the characteristics of high-engagement philanthropists and their work. What needs to be emphasized again is the time and effort these funders take to research, analyze, and then select the nonprofits in which to invest their funds and efforts. Thus, the richness of these dialogues stems from the combination of innovative philanthropists being matched with nonprofit leaders of high-performing organizations. But these eight points seem particularly relevant to each of the dialogues and integral to the necessity of creating capital-centered solutions.

1. Bold Ambitions and New Possibilities. At the heart of each relationship between investor and investment partner is a commitment to a bold goal of addressing a large societal challenge. They seek to do more than ameliorate individual suffering or achieve incremental change through project support. Rather, they aspire to solve daunting local, national (and international) challenges. Whether it is Venture Philanthropy Partners and Heads Up seeking to improve outcomes in the troubled DC public school system, or New Leaders for New Schools trying to eventually reach one million children, or IAVI's strategies for making the AIDS vaccine widely available, these high-engagement grantmakers are "driving the conversation about the prize," in the words of Carol Welsh Gray from the Center for Venture Philanthropy. Larger investments in a smaller number of investment partners enable all parties to think about their work in a new and unconstrained way.

"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 do with an additional \$50,000 or \$100,000. I think I gave Clark 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."

— Geoffrey Canada, President and CEO,
Harlem Children's Zone

Also, it is more than money that opens up these possibilities. It is the networks, access, etc. that challenges (you might say, forces) the organizations to think in an unconstrained way. The planning processes play an important role in stimulating and then supporting this thinking.

2. A Lot of Time and Money. There is an unusually clear-eyed recognition and numerous specific assertions (from the Robin Hood Foundation, Vin Pan at Heads Up,

and Geoff Canada at the Harlem Children's Zone) that achieving the desired objectives takes a lot of money and a lot of time. Most grantseekers seduce donors with the promise that they can make a little go a long way. What most funders and grantseekers know, but never say, is that actually a little only goes a little way, and the only thing that goes a long way is a lot. Failure to recognize and assert that truth sets false expectations and lays the foundation for disappointment, insufficiently ambitious goals, and the further erosion of public confidence in nonprofit efforts. These dialogues take that issue head on. Ironically, one of the painful lessons of private sector investment is the heavy toll of undercapitalizing an investment, and the learning to date suggests this is just as vital for nonprofits.

"Boards change and people change. That's one of the critical issues for venture philanthropy in a generation that has the time horizon of a nanosecond. Will venture philanthropy take those longer horizons? For a vaccine product development initiative, it's got to be 15 years, minimum."

— Seth Berkley, President and CEO, IAVI

3. Leadership. Highly-engaged investors look to the people as well as the proposals. Leadership is ranked as high as programs. In many cases this mirrors the operating philosophy and management style of the investors' business experience. When asked what about Heads Up appealed to Venture Philanthropy Partners, the answer was "The strong leadership.... Somebody who has the persona to create a vision and rally others toward that vision." But leadership is only relevant if there is already a working solution or a demonstrable concept. The real test for many investors is if there really is strong, compelling leadership to take the organization to another level of impact and performance. This requires intuitive, subjective judgment about people and their potential as leaders to augment the traditionally more precise evaluation process for investments.

"Ed Cohen was so struck by the team, he said, 'This is a winning team and we have to invest now and we have to move quickly.'"

— Vanessa Kirsch, President, New Profit Inc.

4. Sophistication About Public Sector Role. These relationships distinguish themselves in their contemplation of a significant public sector role. The investors as well as the investment partners understand that private sector solutions by themselves will not scale to the level of need, and they are intentional about measuring and communicating their results in ways that they will be able to create public will and political support.

“The scalability is really based on government involvement. Of course, it depends on how you define scale. If we are talking about making it available to those who need it, those who qualify for it, and those who are ready to take advantage of what it has to offer them, scale is limited only by its fundability.”

— Margot Rawlins, Program Manager,
Center for Venture Philanthropy

5. Leveraging Networks. Almost without exception, high-engagement investors play a critical role in introducing investment partners to other funders and in leveraging the assets of their broader networks. This is a logical corollary to #s 3 and 4 above, because recognizing the true scope of the resource needs makes leveraging other assets imperative to success.

“If we’re doers, we’re dead. We should be trying to help you make the best decision, find those resources you need, and build your capacity. Our relationship must be based on where the organization grows and is strengthened, not one where we become a crutch to the management team and board. And I would argue that is how the best investors do it. They’re not the ones at the table executing, but they help find the right people, bring new capital, and make introductions to vital relationships, which is what we have to do.”

— Mario Morino, Chairman,
Venture Philanthropy Partners

6. Partnerships and Joint Ventures in Practice Not Just Theory. The very nature of the dialogues, which often include multiple parties, underscores the fact of collaboration between various funders and an investment partner. Because investors are committed to solving a problem, not just helping an organization do more, there is an imperative for partnerships with other funders and other service providers. Likewise, this builds on #5.

“A strong community partner is an organization that follows through with commitments that are well-aligned with the organizational mission. In our venture philanthropy model, there are operating agreements with each community partner, which CVP formats and writes based on mutual agreement about everything from quarterly milestones to logistics of who does what.”

— Carol Welsh Gray, Executive Director,
Center for Venture Philanthropy

7. The Reality of the Exit Strategy. The dialogues present ways that investment partners are improving their funding sources, but few illustrate and focus enough on fiscal sustainability as a result of their investment. There is not—and should not be—an analog to the for-profit exit strategy which is, bluntly put, timing the sale of stock at a particular price to benefit the investor. Notwithstanding the need for an exit strategy, and the importance of exit strategies in the venture capital approach from which some high-engagement philanthropists borrow, the investors in the dialogues vary on how they deal with exit strategies. Although at this early stage, their focus on helping organizations achieve scale extends to helping them achieve fiscal sustainability, it is still formative at best. Fortunately, all the funders function as long-term engaged partners. Yet these funders are increasingly aware that they must be much more effective in helping their investment partners find a way to fiscal sustainability.

“At some point, as its revenues grow, it may make sense for us to exit and for them to be working with their local funders. But we don’t have a nice clean, crisp exit strategy yet”

— Kim Smith, Co-Founder and CEO,
NewSchools Venture Fund

8. Bold Growth Can Put an Organization Through Wrenching Change. Planning takes place at such an intensive level that it comes to mean something different than what most organizations are used to. And there is a mutual accountability in which investors are on the hook for performance, just as much as nonprofit directors. It is difficult for an organization that has never been through such a process to appreciate or accept this unanticipated benefit. The challenge is getting folks to raise their level of expectations as to the need, the scope of the effort, the process itself, and the benefits to be gained.

“It takes a lot of time. If you’re going to take a high-engagement approach, you have to be prepared to sit down on the floor with a lot of paper and read it thoroughly and carefully. Be very, very patient. You don’t turn things around in a year. And in order not to make false equations, be familiar with every aspect of the program because looking at it in bits and pieces does not give you the whole picture. I also think it takes more than one person. I don’t think any one person or program necessarily has the skill set to think about every aspect of an organization.”

— Suzi Epstein, Director, Job Training &
Domestic Violence, Robin Hood Foundation

The road ahead

Clearly, the dialogues raise as many questions as they answer. Some of the more provocative may be as follows:

- Is there sufficient financial sophistication in the nonprofit sector to take advantage of increased access to capital should it become available, and, if not, what can be done about it?
- How can nonprofit organizations learn more about the concept of risk and integrate such learning into their growth plans?
- Is a concept of sustainability that depends upon federal funding politically viable, and, if not, what can be done to make it so?
- Are there effective alternatives to a concept of sustainability that depends on public sector funding?
- How can the sector underscore and influence nonprofit boards to better understand their fiduciary responsibilities and governance role and to be justifiably assertive in holding its organization accountable for its fiscal health and move toward sustainability?
- At what point do nonprofit boards step up to be stronger voices for their own organizations and advocates for broader system change, whether acting as “agents of accountability,” doing more to influence public funding through advocacy, or pushing for improved systems and access to capital from philanthropic and public sources?
- What influence is a handful of philanthropic “market leaders” practicing high-engagement philanthropy likely to have on the rest of the field?
- Where is there support for developing leadership and communications strategies so that various concentric circles of nonprofit stakeholders—starting with nonprofit executive directors and extending to individual and institutional donors—understand why investments in capitalization are warranted and indeed necessary? And how do we go about building nonprofit capacity to influence public policy and public funding allocations?

Notwithstanding these important questions, we are able to reach some conclusions.

First, the new dual role of high-engagement philanthropy means higher costs. The partnerships we examined are characterized by a dual focus on strategic assistance to help the nonprofits become more effective and strategies to com-

pensate for being perpetually underfunded due to a lack of market systems and access to capital. Such grantmakers are making larger grants to a smaller and more highly selective number of organizations, while at the same time absorbing higher costs for non-grant assistance like strategic management advice, leveraging their own networks to benefit their investment partner, etc. The implied tradeoff for the funder is appropriately higher costs for what they do to drive greater impact in their investment partners.

Second, nonprofits that lack access to capital are destined to make incremental gains. Until the lack of access to capital and a means to distribute it effectively are resolved, community-based nonprofit organizations will continue to devote limited resources to the most urgent symptoms of deep-rooted social problems, rather than addressing the problems themselves. Thus, gains will continue to be incremental, falling far short of achieving systematic solutions on a scale equal to that of the problem being addressed.

Third, sustainability is a concept much sought after but rarely defined with precision. While it is never a guarantee, we believe it means access to growth capital for organizations that are competitive on the basis of their demonstrated performance and promise and the use of that capital to develop sustainable financing that is a function of their continued performance and outcomes. And, it is imperative that public policy understands and comes to reflect this relationship, for public funding represents the dominant and most robust money source. High-engagement philanthropy may be the necessary bridge to a time when public policy embraces and funds the growth of high performing nonprofit organizations, or other as yet unimagined capital structures are developed to meet new challenges. There are some precedents demonstrating the potential, as Bill Dietel of The F.B. Heron Foundation has pointed out: “The housing subsector has been remarkably successful in achieving changes in public policy, including the guarantee of tax credits.... In addition, there are at least the beginnings of some intermediary financial institutions in the housing subsector...”

All of us involved in the sector must do more not only to pose and discuss these questions, but to answer them and provide tangible benefit.

At the sector level there is low awareness of the highly promising initiatives in place or in development that deal with access to capital and financial services for nonprofits. This array of players needs to be coalesced on their shared interest in capital and financing, so that there is a greater exchange within these disparate parties and so their work and learning are disseminated to a broader audience of leaders seeking change in the sector.

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The volume of the discussion about capital and financial services for community-based nonprofits must be turned up and the messages sharpened. There are no hard and proven answers, but there is much relevant innovation underway producing interim results and important lessons that can affect and lead to sector change. New outreach efforts like the Listening Post Project can play an important role in collecting market intelligence and providing feedback from the nonprofit sector. Organizations like the Independent Sector must get more directly involved and give this issue political voice. Corporations, and not just their corporate philanthropy, that continue to express their desire for outcomes and accountability need to better recognize their role and the value they can add to the subjects of capital and financial services. And, the leading practitioners and academic centers, which have already done some of the seminal research and writing that stimulated some of this movement, need to be even more aggressive in conveying their findings beyond the confines of their nonprofit and academic audiences.

More needs to be done to engage the financial services industry. Such expertise combined with comparable expertise of the foundation and nonprofit world could rapidly advance the inherent financial understanding of the sector that would lead to new options and the eventual development of what Ashoka's Bill Drayton has called a social financial services industry

Finally, political voices must debate new policy that could stimulate bold, new solutions. Just as the low-income housing tax credit helped stimulate major change and progress in the nonprofit housing subsector, the subsectors taking on some of our most challenging social problems for children and families, the elderly, education, health and human services, and others in this space need a similar trigger for broad-based change. When will we see a Fannie Mae for health and human services? Where can we find the public policy parallel that will trigger broad-based change to help those already doing yeoman's work in our communities to better serve those most in need?

The lessons being learned from such innovations in philanthropy are critical and must be more widely and purposefully shared with other philanthropic thought leaders, public policy makers, government officials, potential donors, and nonprofit leaders. In this way high-engagement philanthropy may best be seen as yet another step on the philanthropic continuum, not an answer in and of itself—certainly not a panacea—but an indispensable stage in the evolution of a philanthropic and public policy partnership that truly meets our needs. ■

¹ Bailin, Michael. *Focusing In On an Effective Grantmaking Strategy*. Keynote speech delivered at the Center for Effective Philanthropy's Seminar on Foundation Effectiveness. (October 2003). http://www.emcf.org/about/pres_corner/cep_presentation.htm.

² Ryan, William P. *Nonprofit Capital: A Review of Problems and Strategies*. Prepared for The Rockefeller Foundation and Fannie Mae Foundation. (2001). <http://www.rockfound.org/Documents/453/npcapital.pdf>

³ Miller, Clara. *Hidden in Plain Sight: Understanding Nonprofit Capital Structure*. Originally published in *Nonprofit Quarterly*, Spring 2003. http://www.nonprofitfinancefund.org/docs/Miller_Capital_Structure.pdf



**Leadership Dialogue:
The Edna McConnell Clark Foundation and
Harlem Children's Zone**

Overview

Four years ago, the Edna McConnell Clark Foundation embarked on a major transformation of its grantmaking. It shifted its focus from working across several program areas to the pursuit of one goal: to help already high-performing youth-serving nonprofits reach even greater heights.

By focusing on nonprofits that serve 9- to 24-year-olds from low-income backgrounds—and making new grants to only a handful of organizations each year—the Clark Foundation is able to provide substantial money, energy, and non-financial support to these select groups. The goal is to help these organizations make significant and measurable improvements in their operations so they can better serve larger numbers of young people who might otherwise fail to make a successful transition to adulthood.

Finding the right grantees to pilot this new way of working was a critical first step. The Clark Foundation first chose to work with an organization that the foundation had funded for more than a decade: the Harlem Children's Zone (HCZ, then called Rheedlen Center for Children and Families). HCZ's mission is to give poor children from Harlem a better start in life. The Clark Foundation decided to experiment with this new way of working with HCZ because the foundation knew it could count on HCZ's respected leader, Geoffrey Canada, to give his most honest appraisal of the new approach. It also made sense for the Clark Foundation to include HCZ in its pilot for another reason. Under its New York Neighborhoods program, a community improvement effort, the foundation was already working with HCZ in ways that went beyond project-specific support—notably by helping the organization address some of its infrastructure needs.

At first, the discussions progressed in fits and starts. When the Clark Foundation officials asked Canada what he would do with a large grant, he presented a \$500,000 vision. Encouraged by the foundation to go higher, he expanded it to a \$2 million vision. After the foundation finally asked Canada what he could do with even greater resources, he began to outline his dreams for the organization, encompassing projects that would not just touch a few areas of children's lives but that would also challenge the entire community to create a nurturing environment.

The Clark Foundation and Harlem Children's Zone are now working together to achieve Canada's vision, with the foundation providing both cash and non-financial help in the form of business planning and performance tracking and evaluation.

Although EMCF's support has been a boon to the Harlem Children's Zone, the changes it has wrought haven't always been easy. To implement its bold vision, HCZ decided to drop cherished programs that weren't in line with its mission—decisions that Canada said were wrenching but that he realized the organization had to make. The relationship between EMCF and HCZ also required compromise on both sides, such as where to draw the line between the foundation's responsibility and HCZ's. For instance, the foundation provided a management consultant, but HCZ retained the authority to fire that firm. The one thing that remained non-negotiable, however, was HCZ's responsibility for defining its vision and implementing its growth plan. In addition, HCZ agreed to be held accountable for work it said it wanted to do.

As a result of the opportunity that EMCF support has made possible, the Harlem Children's Zone now is a much stronger, more focused organization that makes better use of data to guide its day-to-day operations and future planning. It has a new and highly energized board of directors, top-notch senior staff members, and a solid business plan that has taken much of the guesswork out of its hopes and plans for the future. Progress over the past three years has been nothing short of remarkable.

About the Organizations

Harlem Children's Zone is a nonprofit organization that engages adults in the community to create a positive environment in which to raise children. Concentrating on a 24-block area in Central Harlem, the organization doesn't limit its work to parents but also includes teachers, neighbors, religious leaders, and others.

The group works to improve the lives of children of all ages, but it aims for early intervention, providing a stable family environment, affordable housing, strong academic opportunities, and constructive activities.

HCZ was founded on two central premises: First, children from troubled communities are more likely to grow to healthy, satisfying adulthood if a critical mass of the adults around them is well

versed in the techniques of effective parenting and is engaged in local educational, social, and religious activities with their children; and second, the earlier a child is touched by sound health care, intellectual and social stimulation, and consistent guidance from loving, attentive adults, the more likely that child will be to grow into a responsible and fulfilled member of the community.

HCZ continues to expand its reach and its programs and, over the next several years, hopes to work in neighborhoods beyond its current 24-block area.

The Edna McConnell Clark Foundation

operated as a traditional grantmaker for 30 years, and in the 1990s was spending \$5 million a year to support five program areas. But in 1996, a new foundation president, Michael Bailin, came aboard, and things started to change. Although the foundation had been supporting worthy programs and had its share of successes, Bailin and the board of trustees were concerned that even though the foundation had made grants totaling millions of dollars to reform large public systems in areas ranging from education to child protection, results were hard to discern.

By 1999, the foundation had changed its focus, concentrating on one program area—youth development—and it began to support just a few medium-size organizations that were already doing excellent work.

As part of its move to a new way of working, the foundation explored whether any of its existing program areas could adopt elements of what would eventually become an institution-building approach to grantmaking. For instance, some of the organizations funded under the foundation's New York Neighborhood program, a community improvement effort, received support to strengthen their overall operations.

Rather than giving grants to as many as 200 organizations each year, the foundation chose to provide grants to just six or seven grantees. And instead of using program officers, the foundation established "portfolio managers" with significant experience leading organizations through changes. Each portfolio manager eventually worked closely with six or seven grantees, spending as much as a whole day with each several times a month.

The foundation helps its grantees design a business plan and create systems to evaluate their work and examine how they are spending their money. The resulting data help them not only work more efficiently but also do a better job relating their stories of success to other potential funders.

This high-engagement approach is a departure from what many have called "venture philanthropy." The Clark Foundation avoids involvement in the day-to-day affairs of the organizations it funds. Its eye remains focused on an organization's outcomes, leaving the grantee to decide how to achieve those goals.

The Clark Foundation's approach is still evolving, but it hopes to build a collection of a dozen or so success stories to help demonstrate the value of its approach.

By the Numbers

The Edna McConnell Clark Foundation

Funds Granted Annually to Support Institution-Building Activities:
\$25 million (projected grants payout beginning in FY04)

Number of Staff Working on Institution Building:
20

Geographic Area of Focus:
Atlantic Seaboard. (In addition, the Foundation makes a small number of grants to national youth-serving organizations. For the most part, such national organizations operate chapters or affiliates in the East Coast areas where the foundation concentrates its grantmaking, or they are planning to expand into those locations.)

Types of Organizations Funded:
The Foundation primarily looks for nonprofit youth-serving organizations with evidence pointing to the effectiveness of their programming.

Harlem Children's Zone

Year Started:
1979

Annual Operating Budget:
\$6.8 million

Mission Focus:
Education and social services for poor children in Harlem

Services Provided:
Education, social service, community organizing, recreation, and cultural

Funder/Nonprofit Relationship

Year Relationship Started:
First grant under New York Neighborhoods Program: 1990
First grant as part of new youth development work: 2000

Expected Length of Relationship:
The foundation made a four-year grant in 2001 to support implementation of a business plan.

Number of Hours of Funder Assistance Provided Annually
60

Dialogue

The following excerpts are from a lengthier conversation held in March 2003 at the offices of the Edna McConnell Clark Foundation in New York City. Participants were:

- **Michael Bailin**, President, Edna McConnell Clark Foundation;
- **Geoffrey Canada**, President/CEO, Harlem Children's Zone;
- **Nancy Roob**, Vice President, Edna McConnell Clark Foundation; and
- **Bill Shore**, Community Wealth Ventures, moderator.

Moderator: What led the foundation to change its grantmaking approach?

Bailin: When I arrived at the foundation, in '96, we started looking at the effectiveness of what it had been doing in previous years. We wanted to know what was being achieved that would justify the many millions of dollars that had been spent over a long period of time and across several different program areas. After concluding that we weren't seeing sufficient outcomes from our work, and that our efforts to reform large public systems were not likely to yield significant returns, we decided to explore new ways of working. For instance, in our New York Neighborhoods program, we experimented with assisting the lead agencies of the Neighborhood Partners Initiative to conduct organizational assessments and consider improvements to enhance the effectiveness of their overall work in the neighborhoods. Ultimately, this approach seemed to make sense and we decided to apply it exclusively in one program area: youth development. And we wanted to use our resources to help high-performing organizations strengthen themselves and, over time, take their work to scale so more kids would directly benefit from participating in better programs. We made the decision to begin piloting our new grantmaking approach in May 1999.

Moderator: The questions that were being asked at that time, like how can "we" be more effective...where were those questions coming from?

Bailin: The trustees. They had been asking themselves questions for a while about what the foundation was accomplishing. While they didn't think the work was bad, they were concerned that they couldn't really tell what we were achieving.

Moderator: When did the Clark Foundation first begin funding the Harlem Children's Zone? Had HCZ already been a grantee at this point?

Canada: My history with the Clark Foundation began significantly earlier, maybe in 1989 or 1990. The city was in a huge homeless crisis with people just churning in and out of shelters. Clark was interested in family preservation and how to help former homeless families stay together. So they asked if we wanted to be part of that. This was a hard time in our organization in terms of fundraising. Everybody was cutting back, and we were losing huge amounts of money. So the answer was yes.

We began to talk with Clark about how you rebuild a civic infrastructure and reduce crime, like drug dealing. The deeper we got into it, the more interesting it became.

Moderator: Were you talking to other foundations about it at the same time?

Canada: No, we had a pretty intense relationship with Clark during this time. We were just trying to figure out if we could do it and how we would know if we were successful.

Moderator: Explain what HCZ had been doing and what both organizations hoped to accomplish.

Canada: We had worked mostly in Harlem, but we had not even scratched the surface there. We started thinking about expanding the number of children we work with in Harlem and possibly expanding to another geographic area. At the same time, the Clark Foundation came up with its initiative to do almost exactly the same thing.

Roob: The program Geoff is describing is what eventually became our Neighborhood Partners Initiative (NPI). This was an effort to make improvements in very small five-block neighborhoods. We supported lead community-based organizations that worked in close partnership with residents and other community stakeholders. We began this work by making a grant to Rheedlen to support a pilot effort taking place on one block—119th Street between Lenox and Fifth Avenues. This pilot became the seed for what Rheedlen ultimately became, the Harlem Children's Zone, and it was also the genesis of NPI in New York City.

Moderator: Did the discussions you had with Geoff around this time contribute to the change in your approach to grantmaking?

Roob: Geoff's program was a bit outside the scope of what we had been doing. At the same time, however, it seemed obvious that to make real improvement in living conditions in central Harlem you would have to address a broader array of issues than just making sure each family had a case worker. Our board recognized this and gave us permission to shift what had been a program for homeless families into one more focused on community development.

Moderator: Talk about how that work with HCZ helped shape the foundation's new direction.

Bailin: Because our goal was to strengthen already high-performing organizations, we needed to find a handful that were doing good work in either community development or in youth development (we hadn't decided yet to focus only on youth development.) These had to be organizations we knew well. They had to be led by people we trusted—people who would take the opportunity we were offering very seriously. In addition, we wanted to work with people whom we also could count on to push back when necessary, and who would help us figure out what was working and what wasn't. We knew we could count on Geoff to tell us how things were going.

Moderator: How did the foundation assess HCZ's strengths and weaknesses?

Roob: We didn't put HCZ through our due diligence process because we felt that we knew the organization, although, in retrospect, there was a lot we didn't really know.

Moderator: Geoff, what was your thinking around this time?

Canada: We spent a lot of time talking about what would make a difference and testing ideas. A lot of funders were talking about infrastructure development, but what they meant was giving you half a grant for development to help you raise more money.

People often talk about issues, like evaluation. But they aren't prepared to support it when they see what it costs and how long it takes to build these kinds of structures. So the last question for me had to do with time. The attention span of most foundations around initiatives is three or four years. But we were talking about seven years of working in that area of Harlem.

Moderator: Did you think the Clark Foundation would be different?

Canada: I was hesitant. The Clark Foundation would have had to make a major grant, which was nowhere on the horizon. Nobody even whispered that they were thinking about long-term grants of that size, and I knew that it would run counter to the way the foundation had operated. The whole foundation—the board and everybody—would have had to make a radical shift. But that's exactly what happened.

Moderator: Was it difficult for the foundation to make that shift?

Bailin: I spent a lot of time looking at the established programs we had been funding because I respected them. This was a venerable place, and it wasn't doing bad work. It was even more committed than other foundations to tackling tough issues and sticking with them. But we really weren't able to assess with any certainty just what they had accomplished.

Moderator: How much of your decision was based on Geoff as the leader of his organization?

Bailin: It's tough to separate out which had the greatest influence. Being able to work with Geoff made it easier for us to try something new. It's not that HCZ wasn't a perfectly good place for us to start anyway; but there's also no question that Geoff's involvement was important. We knew him and knew what he was capable of doing.

Moderator: Geoff, is there anything you would have done differently in your relationship with the Clark Foundation?

Canada: We're such a totally different organization today than we were when we started working with EMCF that it's impossible to know whether we would be where we are if I had done anything different. But I think the short answer is no. Were there times when I had concerns? Yes. Usually people say, "I want you to be honest." But they don't want you to be too honest. I think that's true

On Leadership

"Being able to work with Geoff made it easier for us to try something new."
—Bailin

"A lot of this came down to the faith we had in Geoff and his track record as a decision-maker. We've seen him in the past make very tough decisions, so we felt confident that he would make tough decisions about HCZ's overall organizational performance if and when that was necessary."
—Roob

"Geoff had a series of conversations with staff about the new business plan... and its implications. At one of HCZ's planning retreats, Geoff asked each of his managers to decide whether to commit to the plan or to think about leaving."
—Roob

from anybody's perspective. But you hope you're close enough in your thoughts that you can express your viewpoint without hurting people's feelings. The question becomes, what happens when you have divergent thoughts? Then my fear is always that the foundation will play the bully.

Moderator: Was that ever a concern with Clark?

Canada: There were very few times—maybe three or four—when I worried about it. One was over outside evaluation consultants. We had talked with the foundation about previous folks it had brought in to help us. They weren't very helpful, but for awhile everybody acted like they were. So I had some frank discussions with Nancy and Mike about our experiences with some of the folks they were paying to help us.

Even when it came to working with the Bridgespan Group [a consulting firm that works with nonprofits on strategic planning], there was a whole conversation about who controls the power in this relationship. Are they working for you or us? Do they report to you first or do they report to me first? The test of this is always, if we don't like them, can we fire them and hire somebody else? With Clark, it was clear the consultants worked for us.

There were other momentary crises that passed without the relationship being hurt, times when I thought, "If they get to dictate X, Y, and Z, this might not work out." My question was always whether we could have tough conversations where we would say, "No, I'm not doing that" and still have an engaged, respectful relationship with folks feeling good about where the organization is heading. The answer here was yes, over and over again. When we disagreed, they would say, "Fine, no harm, no foul. Let's keep going, even though I don't agree with this choice." That's a leap of faith.

So we had a terrific relationship with Nancy, a terrific relationship with Mike, but I don't pretend that if the personalities had been different it would have worked out as well.

Moderator: Was there a point where you were thinking, "We've got a lot of money at stake and we know we have to give Geoff as long a lead as possible, but . . ."

Bailin: The thing to keep in mind is that whatever the end result of the business planning was, HCZ had to feel it was their plan. Obviously we wanted it to be a good plan, and we pushed hard to make sure it would be doable. We don't want to be in the position of having to pull out after everyone involved has invested so

much to get to that stage. But again, it had to be their plan.

Moderator: How did you get to the point where you could push back and leave it to Geoff?

Roob: Geoff said something really important to me, "Look, bottom line: We've got these performance measures. You hold me accountable to these measures and either I get there or I don't, and then we'll talk about it."

And he was right. And that's our approach. We do feel it's important to name those things we see as risks. We identify them to our own trustees, and we put them in writing. But we do it in the spirit of wanting to see the grantee succeed and wanting to help if we think there's weakness.

It's incredibly threatening to have that honest conversation. But in the end, it's really about whether the grantee achieves the milestones and meets the performance measures in the business plan.

For us, a lot of this came down to the faith we had in Geoff and his track record as a decision-maker. We've seen him in the past make very tough decisions, so we felt confident that he would make tough decisions about HCZ's overall

On the Relationship

"We wanted to work with people whom we also could count on to push back when necessary... We knew we could count on Geoff to tell us how things were going."
—Bailin

"Usually people say, 'I want you to be honest.' But they don't want you to be too honest... The question becomes, what happens when you have divergent thoughts? Then my fear is always that the foundation will play the bully... Even when it came to working with [the consultants], there was a whole conversation about who controls the power in this relationship. Are they working for you or us? Do they report to you first or do they report to me first? The test of this is always, if we don't like them, can we fire them and hire somebody else? With Clark, it was clear the consultants worked for us."
—Canada

"My question was always whether we could have tough conversations where we would say, 'No, I'm not doing that' and still have an engaged, respectful relationship with folks feeling good about where the organization is heading. The answer was yes, over and over again."
—Canada

"There's no end to the needs that grantees have, but we clearly can't provide everything. We want to help them become stronger, independent, self-sustaining organizations, but at the same time we have to avoid doing too much for them out of concern that they not become little more than wards of the foundation."
—Bailin

On Planning

“Whatever the end result of the business planning was, HCZ had to feel it was their plan. Obviously we wanted it to be a good plan, and we pushed hard to make sure it would be doable. But again, it had to be their plan.”
—Bailin

“We clarified our mission....We had been operating the way a lot of organizations operate: More is better. We had programs we held onto because in lean times these programs had revenue streams, and we could use them to shelter key staff. So about halfway through the business planning process it became clear that we were going to change a number of things very significantly, and this would be one of them.”
—Canada

“Our vision of the organization is totally different now because we see it on its way to what is going to happen six years from now.”
—Canada

“[Nancy] said, ‘Well, if you weren’t being realistic, where would you go?’ I said I’d do much more, because you have to go deeper and broader than that to have absolute maximum impact.... I said I’d do something totally different around evaluation. I’d do something totally different around communication. I would do something really different in terms of training. I’d do something really ambitious with data and email. And that’s what our business plan does, and it allows us to expand dramatically down the road. So this is not about what we need today. It’s about what we’re going to need two years from now.”
—Canada

organizational performance if and when that was necessary.

Canada: If it’s going to be a long-term relationship and it’s going to be as engaged as we say it will, then you will get into these hard issues. There will be times when you’ll fight for something and be right and other times you’ll be absolutely wrong. And the question is, are you able to deal with that in a way that keeps the organization moving forward? Do you feel you have the power to make a decision, or do you think the foundation will pull your grant if you disagree? Is your decision based on performance or on the funder thinking she’s smarter than you about this?

This happens all the time with foundations, where someone looks at your program and says, “Geoff, this is great, but let me tell you, there are four things here” And you’re thinking, “How long have you been doing this? Are you just critiquing my whole 20 years of work after spending an hour here?” People do it all the time.

Moderator: How has this relationship affected your relationship with other funders?

Canada: We’re no longer the same kind of organization. Other foundations often don’t understand that for us, giving us a grant is really about buying into a set of

outcomes. We want people to say, “We understand the outcomes, and that’s what we’ll hold you accountable for.” Once we get people down that road, we have a much better conversation. We are so outcome-oriented now that that’s the conversation we start with.

There are still times when things get out of control and I have to say, “You can’t get involved in our business at that level. We just don’t operate like that.”

Moderator: Let’s talk about some of the changes that have taken place in the organization, starting with mission focus and aspirations.

Canada: We clarified our mission, which made it easier for us to describe our work to folks who don’t know us. We had been operating the way a lot of organizations operate: More is better. We had programs we held onto because in lean times these programs had revenue streams, and we could use them to shelter key staff. So about halfway through the business planning process it became clear that we were going to change a number of things very significantly, and this would be one of them.

Roob: In our discussions, we asked about HCZ’s outliers, like its seniors program. HCZ always had a rationale for why it was so critical to have these programs. But we did an analysis and were able to

show that some of these outliers cost a disproportionate amount relative to their value to the organization. That was compelling evidence.

Bailin: Being able to go through with the decision to cut these programs, as painful as it was, is a tremendous tribute to Geoff. He knew it was what had to be done.

Canada: I had thought these programs were paying their own way, but it turned out they weren’t. We had been raising a lot of money to support them. The seniors were very upset that we were severing our relationship with them. And my staff was stunned. I mean, just absolutely floored, because their thinking was, “If he could do that to them, what’s to say we’re not next?” It was something we had never done before, and we had been proud of that fact.

We hadn’t previously had the firepower to do an analysis like the one we did to look at this. After we did, it made much more sense: If you are focused on children, would you make an investment in seniors or in children? That became a much easier conversation to have with staff and other folks. Our vision of the organization is totally different now because we see it on its way to what’s going to happen six years from now.

Moderator: What did you end up doing with the management team during these changes?

Canada: It was the most difficult thing we did. I had built this organization by giving people direct access to me all the time. So unless it was something confidential, my door was always open. That all changed. We realized we couldn't grow the organization and continue to do that. We developed a different reporting structure. Someone who had been with us a long time said, "It feels like I've been demoted."

The people who have been there the longest are the most unhappy. For those who have come on more recently, it's fine.

We began to build the other areas of our organization. We brought in a director of evaluation. We brought in a director of communications, and we've strengthened our development team. Now we were hiring people who had management and other skills but never had run a program.

Moderator: Have these staff changes raised any other concerns within the organization?

Canada: As you have to bring in all this other talent, you have to pay them more than you're paying folks who actually built the organization. I went to the trustees and said, I'm not comfortable bringing people in with salaries that are so much higher than what we pay the folks who actually built the organization. So we revamped our whole salary scale so all of the directors' salaries would be more equitable.

The organization functions much better now that we have someone who's in charge of these areas. But issues of race are another concern. People ask now why Geoff suddenly wants to be surrounded by a lot of white folks who have graduate degrees, and are we still a black agency? We are always looking at the balance. But people wonder if your heart and soul are still in the same playing field.

Moderator: How did you decide to handle these management issues the way you did?

Canada: At first, we went to Bridgespan and asked for advice on management structures. But an interesting thing happened at a Clark Foundation board meeting. One of their trustees who had run companies said, "Don't listen to outside people. You have to think about what's best for you and the way you manage." And I was just stunned that someone who had run a business had some very strong opinions about the value of management advice from outside and that you should really be somewhat suspicious. What I was looking for was some sort of best practice that could be instituted. But instead, I was told, "No, you're going to have to think this through, balance everything, and try and figure out what works for you."

Bailin: I was amazed at how easy Geoff made it look. This place has gone through some amazing changes.

Roob: Geoff knew changes needed to be made to HCZ's management structure long before the business planning process started. Still, it was a huge step to create

new reporting relationships for 18 people who, up until then, reported directly to Geoff. Geoff had a series of conversations with staff across the organization about the new business plan and its implications. At one of HCZ's planning retreats, Geoff asked each of his managers to decide whether to commit to the plan or to think about leaving.

Bailin: He offered to help find something different for those who couldn't commit to the full plan. He cared about the work they'd done and the contribution they'd made, but he needed everyone to buy into it or move on.

Moderator: Did people leave?

Canada: Yes, one of my best directors. It wasn't because he didn't buy into the plan, but we had told the trustees we wanted to compensate our directors based on their making a five-year commitment. He just said, "I don't want to make this commitment and then leave two years from now." So he ended up leaving. We lost a few other directors, one because he wasn't delivering. I told everybody this could happen. We need people who are really solid, with serious management skills. This is not the place for everybody.

Also, we've had a number of folks who had realized that being on the front lines is not what they want to do, so we've offered them positions, when available, to serve the organization in other ways. For instance, a director of one of our programs has moved inside and is now our chief development officer.

On the Management Team

"It was the most difficult thing we did. I had built this organization by giving people direct access to me all the time. ...We developed a different reporting structure...We began to build the other areas of our organization. We brought in a director of evaluation. We brought in a director of communications and we've strengthened our development team. Now we were hiring people who had management and other skills but never had run a program. As you bring in all this other talent, you have to pay them more than you're

paying folks who actually built the organization. So we revamped our whole salary scale so all of the directors' salaries would be more equitable."

—Canada

"Geoff knew changes needed to be made to HCZ's management structure long before the business planning process started. Still, it was a huge step to create new reporting relationships for 18 people who, up until then, reported directly to Geoff."

—Roob

Moderator: There's a lot of buzz in the nonprofit sector about your board and the change it has undergone, a positive buzz. What drove that?

Canada: This came directly out of the business plan, which aimed to build a new \$35 million headquarters to double the number of children we work with. Once we came up with our business plan, it became apparent that as we began to spend down our endowment to build the building, we would also need more revenue to work with all these additional children. We were going to have to replace that \$35 million.

We were clear that the board would have to raise half of the capital campaign target to retain credibility with potential donors outside the organization. Then the question became, do we have board members who can do that? It was very clear we didn't. One board member said, "We've got two choices. Either change our target and maybe do \$10 million, or redo our board."

There were a number of discussions with board members about whether they felt it was appropriate for them to remain on the board when the focus would be raising this kind of money. This was not about having the right credentials or being the right kind of person, it was about whether we were going to serve thousands more children. Most board members understood that.

Moderator: Is this an area where the foundation wanted to play a role in terms of contacts and networking? Or was it

more interested in supporting the plan?

Bailin: We had nothing to do with what Geoff did to build that board.

Moderator: Were there other dimensions besides the financial support and the business plan that brought value to HCZ?

Bailin: We provided some counsel and advice more than occasionally. At the time, I didn't really know whether what we had to offer beyond the money would be useful. But then one of the board members said to me, "Thanks for the money, but the business plan is what really matters because for the first time we know exactly what we have to do to help Geoff and his staff move things forward." That was a great thing to hear.

Moderator: How do you think now about what you provided beyond the money?

Bailin: There's no end to the needs that grantees have, but we clearly can't provide everything. We want to help them become stronger, independent, self-sustaining organizations, but at the same time we have to avoid doing too much for them out of concern that they not become little more than wards of the foundation. As a result, we've decided to limit our non-financial support to four critical areas. Nancy...you might want to elaborate?

Roob: Two are things we've been doing for our grantees from the beginning. One is strategy development, which is the support we provide to help grantees

put together a business plan. Evaluation support is another area that has existed since we started doing this work. Our evaluation unit helps grantees put systems in place to collect data, monitor performance, and analyze outcomes. The two new areas that we assist with are board development and fundraising-related communications.

Moderator: As part of your work, you had to hire additional staff. How did you find them?

Canada: Nancy tried to convince me to use an outside agency to find talented staff. I would have never done it otherwise, because all I could think about was the cost: "Do you know what I could do with those dollars that we would be spending?" But we did use a search firm, and they delivered. They found the people we wanted, and it really mattered.

Moderator: What kind of impact have these new senior people had?

Canada: The one who does our evaluation work is key. Everything is about how we present ourselves to the outside world. So to the degree that you begin to project a certain image, people absolutely respond to that.

Corporations that don't know the not-for-profit world, judge the book by its cover. We never used to spend time worrying about the cover of our book. We were just interested in what was inside, and we thought people could see that. It's a shame that this is not the way a lot of the world operates. But now we

On The Board of Directors

"Once we came up with our business plan, it became apparent that as we began to spend down our endowment to build the building, we would also need more revenue.... We were going to have to replace that \$35 million. We were clear that the board would have to raise half of the capital campaign target to retain credibility with potential donors outside the organization. Then the question became, do we have board members who can do that? It was very clear we didn't.

One board member said, 'We've got two choices. Either change our target and maybe do \$10 million, or redo our board.'" —Canada

"One of the board members said to me, 'Thanks for the money, but the business plan is what really matters because for the first time we know exactly what we have to do to help Geoff and his staff move things forward.'" —Bailin

have probably 400 or 500 percent more communications coming out of our office. We're much better able now to tell our own stories.

So much of what we do now is tied to outcomes, and evaluation is the most complicated thing we do. We spend hundreds of thousands of dollars a year on evaluation. Lots of foundations talk about evaluation, but they're not prepared to support what it would take for an organization to produce the kind of data we produce on a regular basis. It is expensive, and the kind of talent you need to do it well is something that very few not-for-profits our size have. But it is unfair to hold those organizations accountable to outcomes when they have no help to reach them.

One of the intangible things that happened early on collaborating with the Clark Foundation was the opening up of possibilities. We said we want to control our own evaluation. We want to have an in-house capacity, not only to determine if the things we were doing mattered for children but also to be able to write about it and control it. With other grantmakers we've been the workhorse, and someone else has come in and studied and written about what we did.

Moderator: How does "opening up the possibilities" rank among the things you hope to accomplish?

Bailin: It's extremely important that grantees are able to articulate the visions they have for their organizations and develop a plan for making these things happen.

Moderator: I think this was more than actualizing their vision. What I heard

Geoff saying was, "This gave us an opportunity to think much bigger" than he ever had before. The money and the plan and everything else go together with that.

Bailin: I see it as all of a piece. It's essentially getting grantees to articulate things they haven't had a chance to think or talk much about.

Canada: That's exactly right. Most of our visioning is limited by resources. Mostly what we think about is what we can do with an additional \$50,000 or \$100,000. I think I gave Clark probably a \$2 million vision. I remember Nancy saying, "Why would you stop here?" And I said, "Because I think that's a grant amount that's realistic." But she said, "Well, if you weren't being realistic, where would you go?" I said, "I'd do much more, because you have to go deeper and broader than that to have absolute maximum impact."

When they said, "Pull out all the stops," I said I'd do something totally different around evaluation. I'd do something totally different around communication. I would do something really different in terms of training. I'd do something really ambitious with data and email.

And that's what our business plan does, and it allows us to expand dramatically down the road. So this is not about what we need today. It's about what we're going to need two years from now.

Moderator: It sounds like Nancy's question was a pivot point.

Canada: Yes.

Moderator: And what's interesting is that most foundations talk about capacity building. This is a quantum leap.

Bailin: What are you building capacity for? That's the question.

Moderator: Right. We talked about accountability. I'd love to hear you each describe how you see your accountability to each other.

Canada: For me it's pretty straightforward. We were prepared to share anything we learned about the process with the Clark Foundation. And I was open and honest about what I thought was good and bad about the process. And they asked us how it's going and where we were in the process.

Bailin: For us, the quid pro quo is to provide dollars and non-financial support as long as grantees are meeting their performance goals and achieving their objectives.

Moderator: It's hard for me to picture the foreseeable future without you two pretty intertwined with each other. But how about beyond the foreseeable future?

Bailin: It's going to take many, many years to prove that our new approach really works—certainly longer than the length of HCZ's business plan. The link will continue beyond my tenure, and although it's ultimately the board's decision to make, I feel one of my responsibilities in order to keep this work going is to find and train someone who will succeed me someday—someone who is as committed to this approach as I am.

Moderator: You've got that same issue?

Canada: Yes. I told my board I have 10 years. This issue of succession is probably going to be my major job in the next two to three years, making sure that

Impact on Other Funders

"Other foundations often don't understand that for us, giving us a grant is really about buying into a set of outcomes.... We are so outcome-oriented now that that's the conversation we start with." —Canada

"Without other funders, there's a risk this could be seen as an interesting little pilot demonstration that resulted in a few organizations getting a lot of money from EMCF and accomplishing some good things. One of my goals is to find ways to successfully open more funding sources for our grantees." —Bailin

On Outcomes and Evaluations

“People often talk about issues, like evaluation. But they aren't prepared to support it when they see what it costs and how long it takes to build these kinds of structures.”
—Canada

“Geoff said something really important to me, ‘Look, bottom line: We've got these performance measures. You hold me accountable to these measures and either I get there or I don't, and then we'll talk about it.’ And he was right.”
—Roob

“So much of what we do now is tied to outcomes, and evaluation is the most complicated thing we do. We spend hundreds of thousands of dollars a year on evaluation. Lots of foundations talk about evaluation, but they're not prepared to support what it would take for an organization to produce the kind of data we produce on a regular basis. It is expensive, and the kind of talent you need to do it well is something that very few not-for-profits our size have. But it is unfair to hold those organizations accountable to outcomes when they have no help to reach them.”
—Canada

there's some younger person who knows this stuff, is committed to it, and is prepared to come in and work as I scale back my involvement six, seven, or eight years from now.

Moderator: Do you think just finding a successor who is committed to this approach is enough to keep this going?

Bailin: It's clear to me that our approach won't succeed in the long term if other funders don't join with us. Without other funders, there's a risk this could be seen as an interesting little pilot demonstration that resulted in a few organizations getting a lot of money from EMCF and accomplishing some good things. One of my goals is to find ways to successfully open more funding sources for our grantees. I'm a bit more confident about being able to get other funders to listen to what I have to say now that HCZ and other grantees are beginning to show some results.

I would note, however, that we don't walk around here talking about trying to change philanthropy. I'm more interested in getting other funders to see and appreciate what we've discovered about what happens when you get behind an already high-performing organization in a big way. Even the hard-to-reach foundation folks can't ignore that.

Moderator: Is there anything about the relationship that we've missed?

Canada: It's important to remember these relationships are long term and they continue to evolve. You have to revisit them from time to time, just to make sure everybody is still connected in the same way. That's going to be important, how you nurture the relationship. Typically in these relationships, folks come in for a short time, and there's high intensity, and then they drift their own ways.

Bailin: We're hoping this kind of higher engagement and more trusting relationships will lead to better outcomes.

For us it all boils down to making sure we're doing everything that's reasonable and that enables our grantees to do what they need to do to grow stronger and to serve more kids. The best way to do that is both to stay out of their way and be there to offer guidance and other kinds of assistance that is appropriate for us to provide.

We're comfortable letting our grantees do as they decide they need to do because in return for our support and for the trust we've put into them, they've agreed to be held accountable for their performance. Also, the bottom line is that if what we're doing doesn't lead to stronger organizations, more services for kids, and better outcomes, then we can't count this work as a success.

Moderator: This conversation has been primarily about your one relationship with HCZ, but you're also working with a number of other grantees. How do you take what you've learned working with

the Harlem Children's Zone and apply it to other relationships, or can you?

Bailin: Every time we work with a new organization we learn things we didn't know before, and that causes us to go back and refine our model. I expect that change is going to be a constant around here for a long time. But if that leads to better results, I'm all for it.

Moderator: So when you mentioned showing the success of this model to other funders, how do you see teaching them about this model?

Bailin: We're very open about what we do. This conversation is an example of that. When this is published, others will be able to read what we've been discussing. I also visit other foundation colleagues regularly, give speeches, appear on panels. We're also gearing up our knowledge development activities and are developing a plan to create and disseminate what we hope will be useful tools and information products that others can use.

As I said earlier, getting other co-funders to work with us is one of the most important things we have to accomplish. In the end, no single foundation can do this work alone. Right now, there aren't a number of others who are as interested or as ready to do what we're doing. But I feel that we can now talk about our work differently than we did in the past, and that might help bring others along. For one, what we're doing is real—it's no longer just an idea we're thinking about.

We also have results to show—quarter after quarter, our grantees are doing what they said they'd do. They're raising the money, hiring new people, putting up buildings, consolidating operations, and reaching out to more kids. Still, I have to be careful about how I present this message. It wouldn't be smart for me to stand up at a meeting of my colleagues and say, "What we're doing is great, and we want everybody else to think about doing it too." Foundations are very proud of their ideas, their own inventions.

Still, I'm hopeful. For instance, we're starting to have conversations with financial service firms who help wealthy

clients with their philanthropy. We've been approached to see if we can help these individuals make smart philanthropic investments.

Moderator: In what way?

Bailin: I can't say a lot about this yet. It's still confidential and in the early exploratory stages. But what I can tell you is what we won't do, and that's anything that hampers or undercuts our work, our grantees' work, or the integrity of the foundation. For instance, one firm asked us if we'd consider doing research about potential grantees for their clients. They were impressed with

our due diligence approach and were willing to pay us to do it for them. I made it very clear that we can't do and won't do that. But we are open to other possibilities, and we will keep looking for them.

The Participants

Michael Bailin became president of the Edna McConnell Clark Foundation in 1996 after having spent 17 years at Public/Private Ventures (P/PV) in Philadelphia, which he helped found. His years at P/PV, as president and chief executive officer, helped shape his view of grantmaking. P/PV, which works to improve the lives of underprivileged youth, was supported by as many as 75 funders a year. Bailin was struck by the hoops nonprofits sometimes have to jump through to please a variety of supporters, while each has somewhat different viewpoints and agendas. Now on the other side of the fence, Bailin is trying to blaze a trail that will allow nonprofit organizations to do the work they do best with support from foundations but without interference.

Bailin has also practiced law; taught at Dartmouth College; and has served as a consultant to the Ford Foundation and as deputy director and counsel to the South Street Seaport Museum in New York. He has a master's degree in urban planning from Yale and has operated and been on the boards of many nonprofit institutions.

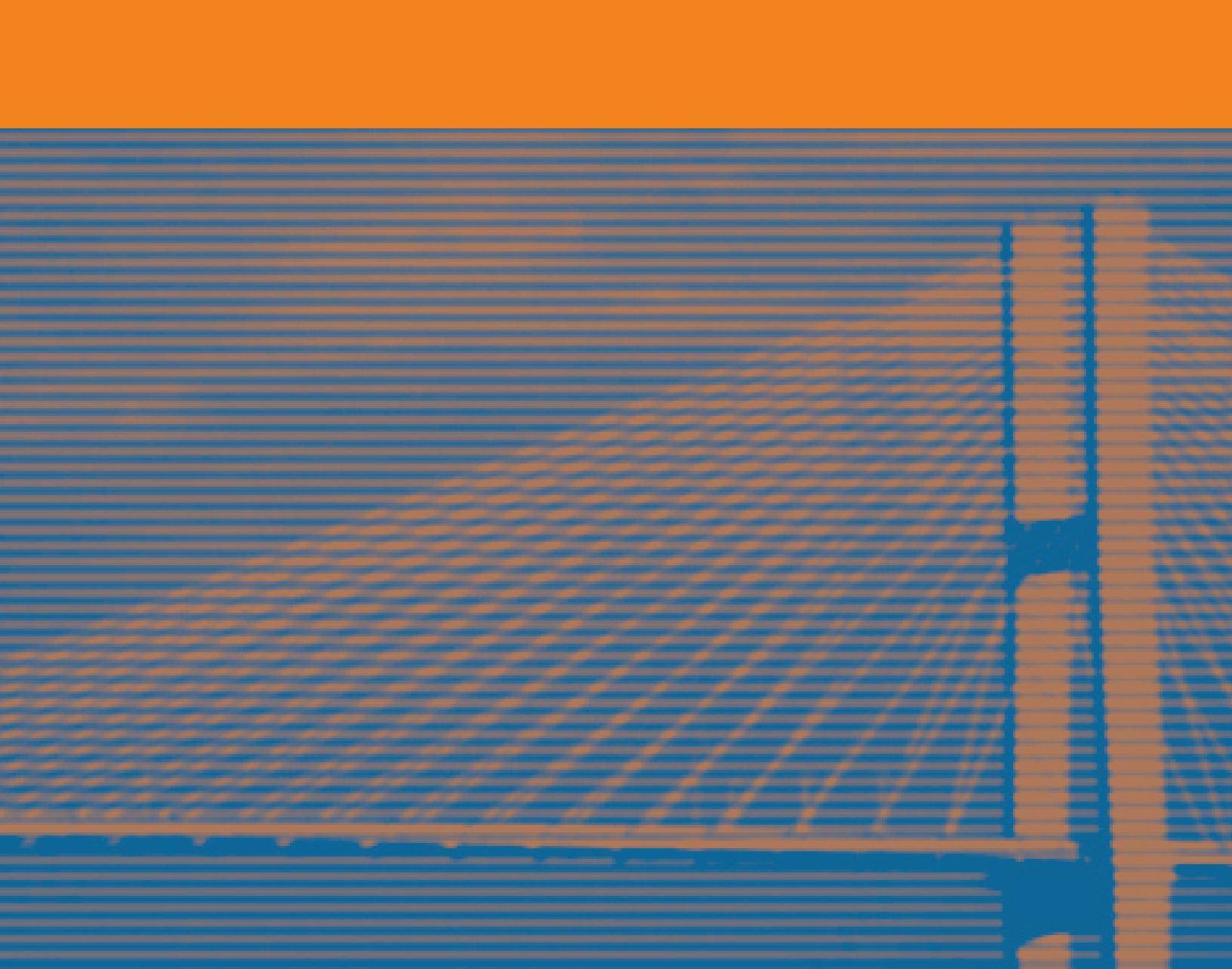
Geoffrey Canada grew up in the South Bronx and has devoted his career to giving children in similar neighborhoods the kinds of opportunities and education that can set them on the road to success. Canada is the president and chief executive officer of Harlem Children's Zone, formerly called Rheedlen Center for Children and Families. HCZ helps parents, teachers, and other residents of a 24-block area of central Harlem provide children with a safe, nurturing environment.

Canada has won numerous awards for his work, including the Heinz Award and the Robin Hood Foundation's Heroes of the Year Award. He is the author of two books, *Reaching Up for Manhood* and *Fist Stick Knife Gun: A Personal History of Violence in America* and is a frequent speaker about violence and children. He has appeared on *Nightline*, the *Today Show*, *Good Morning America*, *CBS This Morning*, and other programs. Canada has a master's degree in education from the Harvard Graduate School of Education.

Nancy Roob is vice president and director of Institution and Field Building at the Edna McConnell Clark Foundation. Roob, who joined the foundation in 1994, played a lead role in developing the foundation's current grantmaking approach, which seeks to help nonprofit youth organizations grow stronger and better able to serve more young people from low-income backgrounds. Previously, she developed and subsequently oversaw the foundation's Program for New York Neighborhoods, a grantmaking effort that supported community building and neighborhood stabilization efforts in the South Bronx and Central Harlem in New York City.

From 1990 to 1994, Roob served as project manager for the Boston Persistent Poverty Project, a program of the Rockefeller and Boston Foundations focused on ending chronic, intergenerational poverty in Boston. She also worked for the Fund for the Homeless, a project of the Boston Foundation. Roob first became involved in organization and community development through her work in child care and employment and training of welfare recipients in Massachusetts. In the late 1980s, she helped manage the Child Care Resource Center, a nonprofit child care resource and referral agency in Boston.

She received a master's degree in public administration from the Kennedy School of Government at Harvard University in 1991.



**Leadership Dialogue:
Venture Philanthropy Partners and Heads Up**

Overview

In June 2000, Mario Morino, Mark Warner, and Raul Fernandez joined together to create Venture Philanthropy Partners (VPP), a venture philanthropy organization for the National Capital Region. Morino, the founder of the Morino Institute and co-founder of Legent Corporation; Warner, who became Governor of Virginia in 2002; and Fernandez, founder of Proxicom, encouraged 27 other technology and business leaders to contribute more than \$30 million to VPP's first fund, The Children's Learning Fund.

VPP's founding investors share four experiences that have shaped their interest in the fund:

- They helped to build and manage highly entrepreneurial, fast growing corporations;
- They experienced the benefits and pitfalls of venture capital funding;
- They understood the value of substantial funding and strategic assistance for organizational growth and expansion, and they believed this could be adapted to help community-based nonprofits; and
- They wanted their giving to influence others and stimulate greater effectiveness in the philanthropic and nonprofit sectors.

VPP's Children's Learning Fund focuses on community-based nonprofits that serve the developmental, learning, and educational needs of children of low-income families in the National Capital Region. VPP's investments are designed to provide substantial, multi-year funding and strategic assistance to help community-based leaders significantly grow and strengthen their organizations. For each investment, VPP draws on the expertise of its in-house investment team and leverages its network of outside contacts, resources, and professional advisors.

By April 2001, VPP's first investment team was in place, and that summer the fund invested in Heads Up, a Washington, DC-based nonprofit that serves children from low-income neighborhoods. As participants in Heads Up's after-school and summer learning programs, college students serve as tutors and mentors to help elementary school children succeed academically.

Although VPP and Heads Up faced challenges in their newly formed relationship as investment partners, both VPP and Heads Up have come a long way.

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.

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.

As for VPP, the experience has challenged the investment team to refine and improve the implementation of its approach as it makes new investments in other organizations. From the beginning, VPP envisioned helping investment partners by providing the strategic assistance of its in-house team and by leveraging its network of contacts. The investment team found both goals more challenging than they expected. VPP learned that to provide high-level management advice and perspectives, its own investment team needed greater senior executive experience. And, the team learned—and continues to learn—that the best ways to leverage its network are not always immediately obvious to VPP's investment partners.

As the relationship has evolved, both parties have begun to use the VPP network for strategic advice and connections. This process began when Heads Up invited Jack Davies, a VPP investor and board member, to join its board of directors. Through that relationship and other business leaders who have joined the organization, Heads Up has established relationships with District of Columbia agencies, publisher Scholastic, Inc., the Washington Capitals, McKinsey & Company, Public/Private Ventures, and other firms. These relationships have led to major contributions of books and curriculum materials, access to high-quality strategic planning services, outcome assessment support, management recruitment assistance, and improved access to elected officials.

Although the VPP/Heads Up relationship is only three years old, the partnership has accelerated Heads Up's performance and growth, allowing it to serve more children with more effective services, and both parties are optimistic about its future success.

About the Organizations

Heads Up is a nonprofit organization in Washington, DC, that provides assistance and activities to help children from low-income neighborhoods succeed in school and life. It enlists college students as tutors and mentors, providing an environment that nurtures their interest in bringing about social change and teaches them to be leaders.

Heads Up was started in 1996 in close collaboration with schools and parents. Its programs at the time included after-school tutoring programs for children in elementary schools. Since then, Heads Up has expanded to offer a more comprehensive set of after-school, summer, mentoring, and employment programs. These programs provide students in grades K-12 with safe, structured learning activities during non-school hours, individual attention to improve their academic skills, and caring adult role models.

Venture Philanthropy Partners (VPP) is a nonprofit philanthropic investment organization that provides growth capital and strategic assistance to build, strengthen, and scale high potential community-based organizations serving the core developmental, learning, and educational needs of children of low-income families in the National Capital Region. In addition, VPP is joining with other organizations nationwide to inspire philanthropists, corporate and nonprofit leaders, and public policymakers at the local, state, and national level to help increase the effectiveness and flow of capital, talent, and other resources to nonprofit organizations meeting the core needs of children.

By the Numbers

Venture Philanthropy Partners

Funds Granted Annually:

VPP does not have an annual distribution percentage but instead will fully deploy more than \$30 million over a five-year period, starting in 2001 and ending in 2006.

Staff Size:

8

Geographic Area of Focus:

National Capital Region – Northern Virginia, the District of Columbia, and Suburban Maryland adjacent to the District

Types of Organizations Funded:

High potential, community-based organizations serving the educational, learning, and developmental needs of children of low-income families

Heads Up

Year Started:

1996

Annual Operating Budget:

2003 – \$3.5 million

Mission Focus:

Improving academic skills of children while providing service learning opportunities for college students

Services Provided:

After-school and summer mentoring and tutoring for grades K-12.

Funder/Nonprofit Relationship

Year Relationship Started:

2001

Expected Length of Relationship:

Initial term of five years, but the relationship will likely continue beyond agreement term.

Total Funding Distributed to

Nonprofit:

\$936,000 (as of 2/1/03)

Funding Committed Over Life of

Relationship:

\$2.074 million

Dialogue

The following dialogue is extracted from several conversations held in March and April 2003. Participants were:

- **Fred Bollerer**, Senior Partner, Venture Philanthropy Partners;
- **Darin McKeever**, Co-Founder and Executive Director, Heads Up*;
- **Mario Morino**, Chairman, Venture Philanthropy Partners;
- **Vincent Pan**, Co-Founder and former Executive Director, Heads Up*; and
- **Bill Shore** and **Alfred Wise**, Community Wealth Ventures, moderators.

**At the time that these dialogues occurred, Vin Pan was Co-Founder and Executive Director of Heads Up and Darin McKeever was Co-Founder and Director of Partnerships.*

Moderator: We are going to begin at the very beginning in terms of how you became aware of each other.

McKeever: Mario first got on our radar screen when his name kept surfacing in a number of conversations with funders, friends, and colleagues. I think there was a running joke between Vin and me that Mario was the Wizard of Oz. We somehow landed in Kansas and everybody kept telling us to follow the yellow brick road to Mario's door.

Pan: That was even before the creation of Venture Philanthropy Partners. After we heard through the grapevine what VPP's interests were and how it could fit with our work, we made it a priority to connect with them and position ourselves in their networks.

Morino: For us, the process happened in two cycles. First, there was a relationship we had with Chuck Stein, who was on the board of Heads Up. Chuck was someone we knew well and had worked with on a regional effort. I remember Chuck telling me about this great organization he'd gotten involved with and these two young guys, the founders. Then

when VPP started doing its surveillance to find high-quality nonprofits and strong leaders as possible investment candidates, Heads Up kept coming up.

Moderator: What appealed to you about Heads Up?

Morino: The strong leadership. The people who were checking around on our behalf found repeatedly that Heads Up had a good program, but it was not without its problems. But we were betting on the combination of strong leadership and a good program as a foundation. With the right leaders in place, this could be a good opportunity for VPP.

Moderator: From VPP's perspective, what are your objectives for growing leadership and maintaining leadership of organizations in the community?

Bollerer: One of our anchor beliefs is that we have to help organizations strengthen themselves, and that's a broad category, but clearly that includes the leader. The leader has to become stronger, more developed, and understand things more broadly. So the more we can expose that leader to—how to understand organizational dynamics, how to manage organizational change, how to strengthen management, what kind of people to surround yourself with—the more likely the leader is to grow a much stronger organization. That's our goal. There are a lot of elements to growing strong organizations, one of which is educating and exposing the leadership to a lot of learning opportunities.

When we're initially looking at an organization, we look for one that is making a real difference in the lives of children. We look for outcomes and leadership. If you ask me to define leadership, I'm not so sure I can define it. We're looking for somebody who has the persona to create a vision and rally others toward that vision. We're looking for presence, intelligence, focus, capability of really thinking through complex issues in a thoughtful way, someone who has a pretty strong ego and has a pretty good

understanding of who they are and what their capabilities are. And, we're looking for someone with personal conviction—somebody who is willing to push back and argue and get a little tough every once in a while.

Moderator: Mario, how would you describe identifying strong leadership?

Morino: In terms of what we do, the problem is if you have to describe or explain what leadership is to somebody, the conversation will not be worthwhile. This is not meant to be condescending but to reflect the nature of what leadership actually is and represents. I spent some time with one of the partners at McKinsey & Company who is well versed in this issue. His comment was, "Leadership is a lot like speed. You can't really teach someone to be faster. And, you know it when you see it. You don't describe it. You see it. You know it." I think there's a lot to that. How to best assess leadership is to recruit people to your team who understand it and can judge it. We're going to write all of our learning down, capture it, and make it available to others. But, you know what? It's unusable by the wrong person. An ability to judge leadership is not something one is able to package and give to anyone to use. If you don't have the right context and experience in the people looking for and assessing leadership, it doesn't matter what you have on paper. It takes judgment and experience. You need people who have been there, can understand it, and are able to sense strong leadership and cull strong leaders from the ranks of those who just show well or are good managers.

You're looking for the intangible—the person who has the character to get the organization where he or she wants it to go. That's how a great commercial investor works today, and I'd argue it's how a great philanthropic investor needs to work in this space.

Bollerer: One of things common to each of the investment partners we work with is passionate leaders whose backgrounds

have led them into the space they're in. In many cases, they've been in that space for a very long time. We come in as a group of people with executive management experience, including strong business roots, and we believe we bring something to the table. The question that we've gotten directly and indirectly is, "Why do you do this? How does your passion match our passion, and where does it come from?"

For example, with Heads Up, Vin is absolutely passionate about the immorality of what's happening with kids in the city. That drives everything he thinks about. We're fully supportive of his belief and Heads Up's mission. We can differ on aspects of execution, but his point of view comes from having worked in the vineyards, and we respect that.

Moderator: How do you develop a trusting relationship despite your different points of view?

Bollerer: You're never going to have 100 percent trust, but the important thing is for both sides to understand each other's agenda and to be open and candid with respect to expectations of the other. What are we trying to accomplish, what are you trying to accomplish, and why is there a commonality of interests? If the agenda of the nonprofit is purely to get money from us, we can figure that out fairly quickly. If that's all it is, and there appears that there's no way that we can get past that, we'll walk away because our agendas are not harmonious. If their focus is only the money, then they're clearly missing the whole context of what we're about, the potential our approach can have to further a lot of the goals that we both share.

Moderator: Can you describe the initial conversations between VPP and Heads Up?

Pan: When VPP first came out to meet with us formally about investment opportunities, the stakes seemed very high. The potential upsides and the unique nature of their grantmaking put pressure on us to present well. They were also new, and we wanted them to see things our way. So there was clearly more tension than you'd

find in most initial conversations.

But it helped that Bob Templin was a participant. Bob was working with VPP, but I had met him before under different circumstances. I really trusted him and his judgment. Bob was not an ideologue, and he was willing to acknowledge VPP's missteps and warts. If Bob hadn't provided the guidance that he did, the relationship might not have taken off.

Another thing to note is that Washington, DC can be a small place, so a couple of people who knew what was going on behind the scenes were both encouraging us and giving us strength to stand our ground with VPP when necessary.

McKeever: 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. At some point the consternation moved from the staff level to the board level.

Pan: For example, once we were really into it, we wanted to know the potential range of investment before committing a lot of very limited staff time. VPP was reluctant to provide that up front. In addition, some of the lengthier legal documents presented to us caused concerns and led to a lot of wrangling. I suppose we could have just signed them and gotten on with it, but we weren't taking any chances.

Moderator: What might VPP have done differently during this time?

Morino: We made mistakes in how we approached Heads Up. We came on too strong, almost pushing for a deal. You can't jam things on somebody like we did. You have to respect the relationship up front. We learned the importance of taking the time to develop the relationship. You have got to take the time to get to know somebody. And we did not show the sensitivity and respect to their program and the kids they were serving, and, in so doing, we made our work more difficult.

We compounded this by trying to use a

formal, very detailed agreement that was filled with legalese. This only fueled the lack of trust between us.

Heads Up's lack of trust and uncertainty about our intentions also caused them to insist on knowing a range of what we intended to invest in them. Our normal position is that we don't present dollar numbers up front, and I was against doing that in this case as well—and, we haven't done it since. Our contention was that the plan that we develop together should guide our level of investment.

Moderator: Why did you continue to focus on a range of investment?

Pan: To us, the range was important because if we spent months trying to secure this deal and the award ended up being too small or nonexistent, the opportunity cost would have been devastating. We couldn't afford to chase a mirage because there was so much to do to keep things running and so many important relationships that we still needed to build.

At the same time, I believed that our ability to raise additional dollars—on top of the VPP investment—was going to be a key factor in our ability to succeed. So I wanted to ascertain, as much as possible, just how much we were biting off to make sure we weren't setting ourselves up to fail.

Obviously, we don't demand that any other funder give us a range of what's being considered before we apply for a grant because we can look at how they've funded similar organizations, and then we can budget accordingly the time and energy to spend on trying to get the grant.

And though we eventually did get a range, it was a very wide one because we agreed to trust the process. That is, Heads Up would develop a strategic plan in good faith independent of whatever the VPP investment might be, and then VPP could determine its investment level and interest based on the plan.

Still, there were some problems in the planning as we argued about what numbers to use to describe VPP's invest-

ment in our business plan, even as place-holders. You want the plan to dictate the investment. But at least on some level the investment dictates the plan.

Moderator: So in the end, you withheld any investment decisions until you saw the plan?

Bollerer: Yes, once the plan was done and we reached agreement on the milestones to be achieved. As a norm, we make no financial commitments up front or a commitment that we'll invest at all. All that we say is that the plan and the milestones it defines should guide the amount of the investment we make.

Moderator: That planning process defines how much investment is needed?

Bollerer: Not really. The plan clarifies the organization's aspirations, defines what the organization seeks to do, identifies the outcomes and outputs it seeks to attain, and lays out the organizational accomplishments necessary for it to do so. It also creates a high-level budget and the projected monies necessary to fund it. With Heads Up, this process allowed them to define their plan by laying out what they want to achieve, their outcomes and what they have to do in terms of strengthening the organization to make that happen. Based on the plan that

Heads Up developed and a rather clear picture of the funding that was required, VPP had the information we needed to arrive at the level of investment we would propose to Heads Up.

Moderator: One of the things that is interesting to me about this part of the conversation is that we are talking only about money and not about how much value is involved.

McKeever: I think that was definitely on our minds. There was a degree of skepticism there—we were having such challenges just with the funding relationship aspect. How would the other aspects of our relationship work? How much would that impact our organization?

Pan: In the long term, quick-fix money won't guarantee you anything, and all sorts of non-financial assistance and stakeholder support are clearly more important. But in the short term, we, like many groups, needed cash. That was just the reality.

Looking at it now, on the list of non-cash value adds, the involvement of Jack [Davies, a VPP investor and advisor to Heads Up] and Fred [Bollerer] jumps to the top of the list. That includes their business advice and relationships, their mentoring, their commitment to making personal

financial contributions and raising additional funds, as well as their ability to open doors for us.

Second on the list is the planning process and how it got us to think strategically. Having not gone through that kind of process before, it was very difficult for us to anticipate how helpful it would be. An unexpected benefit of the planning process was that our board got re-energized and refocused, and I think that began when board members were intimately involved in helping us negotiate and think through the relationship with VPP.

Because some of these things were uncertain and intangible, they weren't fully appreciated. That and the financial realities of running a nonprofit drew our attention to the monetary aspects of the agreement.

Bollerer: Very important to me was the comment Vin and Darin and Heads Up's board made after the planning process: "We are going to do this plan regardless of whether VPP funds it or not." That attitude of absolute commitment, "Hey this has been a really good process, we learned a lot. We can do this and if we can't sell it to VPP, we can sell it to somebody else because we really believe in it." That was very important.

On the Relationship

"The important thing is for both sides to understand each other's agenda and to be open and candid with respect to expectations of the other... If their focus is only the money, then they're clearly missing the whole context of what we're about, the potential our approach can have to further a lot of the goals that we both share." —Bollerer

"We made mistakes in how we approached Heads Up. We came on too strong, almost pushing for a deal. You can't jam things on somebody like we did. You have to respect the relationship up front." —Morino

"If the relationship is going to work, there must be a sense of joint accountability... So our job is to get into the heads of leaders like Vin and Darin...help focus them on the strategies and actions most important to their success, and then to encourage them to imple-

ment systems to report on their progress in a meaningful way... Chances are if it meets their needs, it should meet ours as well." —Morino

"It is clear VPP is unlike other funders in at least three promised ways. First, the money. The investments are larger, longer term, and more flexible for capacity purposes... The second is that they are highly engaged. They don't have as many grantees or investment partners so they can provide more strategic management assistance. The third piece—the one that we are all still trying to figure out—is the leverage." —Pan

"Because of the strength of the relationship, there is trust and honesty. Because of the process involved, both organizations are fully invested. We are pushing hard toward the same milestones." —Pan

On Leadership

“If you ask me to define leadership, I’m not so sure

I can define it. We’re looking for somebody who has the persona to create a vision and rally others toward that vision.”

—Bollerer

“The problem is if you have to describe or explain what leadership is to somebody, the conversation will not be worthwhile... How to best assess leadership is to recruit people to your team who understand it and can judge it...It takes judgment and experience.”

—Morino

“You’re looking for the intangible—the person who has the character to get the organization where he or she wants it to go.”

—Morino

Moderator: Mario, did you expect early partners to be able to anticipate the value beyond the money?

Morino: I think it’s hard for anybody to understand that value. I’d suggest two reasons. First, it’s hard to value something that one can’t yet appreciate or maybe understand, and that is simply a function of experience of living things the first time. It’s like fire. You really never know what hot means until you touch it. Similarly, things like great boards, strong management, clear focus, etc., are all relative to one’s experience. This is why the more we learn, the more we realize how much we don’t know. Secondly, I think the culture where nonprofit executives function does not recognize or reward things like effective management, strengthening organizations, and building great community institutions. Of course, many organizations say they do, until it’s time to make funding commitments. In our case, the senior partners at VPP, the people who are leading investments today, must help those we work with cross this chasm. As executives, they have to have

an experience and understanding that is further developed than the executive directors they are working with. In this way, their experience provides a growth path for the executive director.

My own career is a great testament to this. I always benefited from working with people who had been where I wanted to go. At one point, as we sought to grow our business, we recruited three members to our board who had built companies of a billion dollars in size, firms much larger than ours. It was amazing how insightful and helpful those board members were because they had been there before and could see problems or obstacles in advance. It was equally amazing to find out how much I didn’t know and could learn from them. In a similar way, VPP’s senior partners and board members need to serve this role, and I believe that Fred and Jack serve such a role for Vin and Darin and Heads Up.

Moderator: In working with Heads Up to execute the plan, how has VPP struck a balance between being highly engaged and being too controlling?

Morino: Our involvement and this kind of funding should not come across as controlling but rather as supportive and influential. If the relationship is going to work, there must be a sense of joint accountability. And if what we’re suggesting is based on fact or merit, and not whimsy, ego, or ideology, then over time such constructive suggestions tend to be accepted. Also, it doesn’t matter what we, VPP, want you to do but rather what Heads Up wants to do. So our job is to get into the heads of leaders like Vin and Darin, to understand how they want to run Heads Up, help focus them on the strategies and actions most important to their success, and then encourage them to implement systems to report on their progress in a meaningful way. And, if they develop clear objectives and ways to assess and report their progress and if they come up with a way to provide transparency and accountability within their own organization and to their board, then this accountability should suffice for our needs. Chances are if it meets their needs, it should meet ours as well. In this way, they’re not reporting to us as

much as they are keeping us informed of their progress and the issues they face.

With the right leadership, they will hear what we say, give the comments appropriate consideration, and make their own decisions. All we can ask and expect is that they have factored in our input and given it due consideration. But we must always recognize it is their organization to run. The right leadership will, more often than not, make the right decision and get to the right answer.

Bollerer: If we get to the point where we have weekly reporting mechanisms, we are at a level that is totally ineffective for Heads Up and VPP. That’s not where we need to be. We need to be very strategic.

Morino: Right. If we’re doers, we’re dead. We should be trying to help you make the best decision, find those resources you need, and build your capacity. Our relationship must be based on where the organization grows and is strengthened, not one where we become a crutch to the management team and board. And I would argue that is how the best investors do it. They’re not the ones at the table executing, but they help find the right people, bring new capital, and make introductions to vital relationships, which is what we have to do.

If I looked at what VPP is doing today, we have to be more strategic and then be very selective when we help our partners operationally. We can’t ignore that they have operational needs, but I will argue that the time spent on the strategic issues of recruitment, board and management development, and financing is going to be far more important in the end than anything we’ll do tactically. And, when you are highly engaged, it is all too easy to lose sight of this and jump in to fill a void or help with a specific need. Yet, even though there may be isolated times where this makes sense, in the long run we will serve organizations like Heads Up through our strategic assistance.

Moderator: What were some of the early projects and products that the two organizations worked on together, and how did that affect the dynamic of the relation-

ship? Did it overcome some of the early difficulties?

Pan: Well, we interviewed a number of management consultants together before eventually going with McKinsey to facilitate our planning. It was difficult for me to come to terms with the idea of using a management consultant, especially when we didn't start out thinking we needed one, and we'd always found ways to do things ourselves. To learn a new skill like accounting, for example, Darin or I would read a textbook, maybe take a class, and figure out how to do it. We didn't need to spend a lot of money and could get scarce resources out to programs and participants.

So on the one hand, it was good to have VPP to bounce ideas off of and learn from their past experiences with consultants, of which I had little. On the other hand, for me, I had a hard time getting over what seemed to be an awful lot of money to spend on consultants.

McKeever: This was the first time that we, Heads Up and VPP, were now on the same team sitting in judgment. For so long the relationship had been one where we were on opposite sides of the table. And seeing how we were evaluating other groups and understanding what process we each used was very helpful for us.

Moderator: What came out of the planning process for Heads Up?

Pan: As a result of the four-month planning period, we had clarity on mission and values. We had agreement on what we wanted the organization to look like, to be doing, and have accomplished in five years. This related to the quality of our programs, the scope of our activities, the number of students we would be working with, and the contribution we would be making to the field.

We also had a better sense of, "Okay, on a day-to-day level, what do we need to do to get from point A to point B? And how will we organize the board, staff, and stakeholders to do these things?" These were things like the implementation timetables and budgets and so on. We also have a more disciplined approach

to and a greater appreciation of planning in general.

Moderator: Talk about point B for a second. How did point B move?

Pan: Point B had been nebulous. The process helped to define point B and in this case for 2007. For us, it's to be a leading and influential provider of out-of-school time programs for children and teenagers in DC neighborhoods and to be the premier youth-related community service program for local universities and undergraduates. We have goals that track against that. The first is to grow and improve our programs so that we're working with 2,400 DC students in 25 neighborhoods with 700 college student tutors and mentors. Incidentally, that will probably make us the largest community provider of after-school and summer programs in the city.

Moderator: And this was a result of the planning process?

Pan: Yes. So we always knew we wanted to grow, but we didn't know exactly how much we wanted to grow or where we wanted to grow.

The second goal was to show that our work truly makes a difference through evaluations that convey both the quantitative and qualitative aspects of our work. This will help us improve our programs while also meeting many external needs. Third, we strive to become a great partner for our colleges by building more co-curricular and learning opportunities for our undergraduate tutors so that they can be better change agents. Fourth, we want to help advance a sorely needed public policy agenda for out-of-school time and youth development programs, and fifth, we must continue to be a well-managed, high-performing and highly effective organization.

McKeever: It was important to put a stake in the ground—to identify a moment five years out when we could imagine what Heads Up would be doing and what we would look like. Then through the planning process it was important to understand the landscape of local and national players and the barriers

to quality and growth that other programs in other cities and in DC have faced.

There were some fundamental decisions about our scope that we addressed during the planning process. First was whether to go national, regional, or local. There was a strong alignment between us, almost from the get-go, about the local emphasis of our growth, but it was reinforced as we discussed our options. Second, we needed to determine how many DC students we could imagine serving. Some said, "Why not 20,000 kids? Why isn't that doable?" We would talk about what other nonprofit groups have faced, what DC and its current school and funding environment looks like, the state of the field within other cities, the policy barriers. Third, we grappled with the number of students we should work with in each school or neighborhood. We believed 80 students in each school was a good target. That's probably one of the decisions that we continue to wrestle with as we grow—whether that is a good expectation, one that allows us to preserve the learning community that we talk about.

Pan: None of this was easy, by the way. There was an extended debate about the very core of who we were. In the planning discussions, one of the points of discussion if not contention was the role of college students as tutors and future leaders.

The disagreement went on for some time, until finally Darin or I said something like, "Look, this is one of the premises of Heads Up that is important to us and it is central to our mission." To us, the purpose of Heads Up to help college students understand and work for social change was not negotiable.

Then folks accepted it and moved forward. This type of discussion and challenge has value, but it is worth noting that there is a big difference between changing an organization's mission and getting more clarity on it.

Moderator: Their view that emerged from the planning process on where they want to be in five years, is that something VPP influenced?

Bollerer: We tried not to influence. We were involved in that we were a participant in the planning process. Our goal was not to change their ambitions, their vision, or their mission in any way, but we did want to influence them to be clearer and better defined. After that was over, our deal with them was that if we felt their ambitions were consistent with building a stronger organization, having a greater impact on kids, and raising the bar in the field of out-of-school programs, then they could demonstrate success and therefore influence the way others invest. If we could see that kind of clarity, then we would invest in Heads Up. If we felt differently about what came out of the planning process, we reserved the right not to invest in it.

Moderator: So it sounds like your planning process was internal, which most organizations have to do at some point, but also it sounds like you did an external assessment.

Pan: Yes. We looked at the funding environment. As Darin mentioned, we looked at the range of other out-of-school time providers. We looked at the external environment in terms of the needs of our students, our partners, our stakeholders, and our college students. With this knowledge, for example, we knew serving 2,400 kids would likely make us the biggest out-of-school time provider, short of the school system itself. If we found that everybody else was serving 10,000, well, maybe we would have had to push more if we really wanted to be a leading and influential provider.

Moderator: And part of becoming a leading provider was driven by aspiration? By funding?

Pan: Aspiration. The idea is not just to lead but also to be influential. We can help a lot of kids get ahead, but there is no way we are going to be able, nor should we try, to reach all kids. So we need to earn enough credibility to help improve the market and environment so that there can be more programs like ours, and so that we can all flourish and get stronger. More importantly, our interest is to advocate for reform and improve-

ments in the systems that are failing children and families in the first place. Our sense is there needs to be a critical mass to attract enough attention and goodwill to influence public policy, public awareness, and public understanding, beginning with our undergraduate participants themselves.

Moderator: What else came out of the planning process?

McKeever: One of the key outcomes was a more highly engaged and aligned board. There is also greater alignment about the mission throughout the organization.

Moderator: What does VPP look for when looking at the boards of its investment partners?

Morino: There is a tremendous importance in finding several highly experienced, thoughtful, rational minds on a board, and that makes all the difference in the world for the way you work together and build a strong relationship. An analogy to consider is that if one is doing an acquisition or merger, dealing with the entrepreneur or business person one-on-one is often problematic and sensitive. If that person has an advisor, a trusted advisor, who is experienced and thoughtful, the chance of successfully negotiating and building a relationship is actually higher because that advisor is moderating the discussion and bringing the business person back to earth on issues that you can never do one-on-one because you're the other side of the equation. A rational mind is an experienced person. Someone who brings stability to the board, has a good managerial background and probably a good executive understanding, and, most important, understands people and organizations. It doesn't necessarily have to be a business person but someone with solid judgment and maturity, someone who approaches problems without emotional fanfare. It's somebody who is going to be a good counterbalance to the exuberance of the leader. Any leader should have a strong ego, and sometimes that can get in the way of the discussion. So if you looked at Heads Up, Vin and Darin have enjoyed the support of such rational minds in Chuck Stein, David

Sylvester, and others on their board. And the thinking and support of these people helped Vin and Darin, and us, keep things on track through some bumps in the initial relationship and agreement period.

We realized that we now have to look at boards much more extensively than we did in the evaluation process, either to help us in the decision or to really help us understand any potential difficulty with the relationship.

Pan: Some people miss the boat on that and revert immediately to a litmus test of "best practices," which as Mario points out, can obscure the real nuances of an effective board.

Moderator: So, as you're looking at other future investments, how do you even begin to assess whether there is a rational mind on the board?

Morino: You have to spend time with the board, the key members of the board, to see if they're engaged. Also, one of the things that you want to get to is whether the executive director is open to working with a good board—open to seeing the board as a true asset beyond the traditional fundraising perspective of most non-profits. This has proven true with Heads Up. Vin has a very different relationship, a more effective and engaged relationship, with his board. It is a much different relationship than he may have initially imagined. So you have to look at the executive director and make a judgment call. If you identify somebody who is going to be open and willing to work with the board, you can actually influence transformational change. It starts by helping the executive director visualize the type of board needed, then make changes to the board, if necessary, to ensure the board is fully engaged. An engaged board will hold the executive director accountable. And, the board should likewise be held accountable to the executive director and the organization. The board at Heads Up and the relationship that now exists between the board and Vin are two of the organization's biggest assets.

McKeever: For us, we began to see the changes to the board with the planning.

We had about half of our 14-member board involved intensively in the planning—coming together every two weeks for three to four hours at a time poring over a lot of the research that McKinsey consultants had done. We started out with a board that was a sounding board, one that we would bring updates to, one that was sensitive to the challenges of a start-up and, in some ways, a little more hands off. Now we have a board that understands that in order for us to get to that point B that Vin was talking about, we need a more highly engaged board around fundraising, around advocacy, and around program planning.

Pan: Many nonprofits are unlikely to have a full complement of staff able to do all that must be done or provide everything that is needed. So you depend on the board members not just to be strategic and to provide accountability but also to roll up their sleeves at certain times and be involved in the design and implementation of specialized areas.

McKeever: There are some obvious things to look at now in how the board functions. One is that our board is meeting every two months. Our officers are meeting during the other months. We have a good and getting better committee structure, and those committees are also meeting every other month, sometimes every month. So that level of engagement has stuck around. Individually, board members have stepped up their participation as well by coming on site visits and organizing fundraising activities.

Moderator: Does VPP take a board seat on all of its investments?

Morino: Yes, and we have a very clear view of what role that board seat should play. When somebody takes a board seat, the first responsibility is to the organization as a fiduciary member of that board, not to VPP. That's what a board seat is about. Jack's [Davies] first call is to help Heads Up. That doesn't mean that he ignores VPP, but if there is mission alignment between the two organizations, if there is good leadership and agreement on the overall plan and milestones to be achieved, there is no real tension. We want VPP represented at the table because we think we add value to the board, but we do not look at the board seat as a monitoring or controlling mechanism. If we have to resort to board representation to protect VPP's interest or to exert control, then the relationship of our investment team with Heads Up has failed. The risk of board participation for funders exists when board seats are meant to exert control over the organization and when the funder has a representative who adds little value to the board. Unfortunately, boards in the nonprofit sector need to be much more than they are. Understanding the development of highly effective boards is not the strong suit of many supporters and funders.

Our designate does not necessarily have to be a VPP person. We may recruit somebody from the field. It may not be someone aligned with VPP per se, but we want to provide a really solid asset to

the organization and the person must be someone we trust so that we can get another view of the organization and how well VPP is serving it. The board member has to bring something to the table at an executive level.

And composing boards is funny. Many nonprofits aren't conditioned or rewarded to think boldly and therefore they can undershoot who they recruit for their boards. All too often, nonprofits focus on fundraising skill rather than securing a diverse set of competencies, such as connections to local officials and public policy expertise, or connections to key resources for the constituency they serve. It's important that a board understand that they can create low watermarks on their boards.

Moderator: What does that mean?

Morino: Our experience suggests you want to create a board that people want to be on—in which they see themselves as relative peers. Sometimes one board member may inadvertently set a low watermark that will make it hard to recruit some of the top talent a board may need. No one wants to go on a board and see a weak link on the board. That's the classic sign of poor board development. What happens is you have all these really top guns and you have this one person who just doesn't fit at all. And that's a negative to people coming on the board. Boards are cumulative. The greater strength you have in your peer group, the greater chance of getting good board members.

On Planning

“The plan clarifies the organization's aspirations, defines what the organization seeks to do, identifies the outcomes and outputs it seeks to attain, and lays out the organizational accomplishments necessary for it to do so. It also creates a high-level budget and the projected monies necessary to fund it.” —Bollerer

“Having not gone through that kind of process before, it was very difficult for us to anticipate how helpful it would be.” —Pan

“As a result of the four-month planning period, we had clarity on mission and values. We had agreement on what we wanted the organization to look like, to be doing and have accomplished in five years.... We also had a better sense of, ‘Okay, on a day-to-day level, what do we need to do to get from point A to point B?’” —Pan

“Our goal was not to change their ambitions, their vision, or their mission in any way, but we did want to influence them to be clearer and better defined.” —Bollerer

I'm referring to relative peers. A business executive, a community leader, and a parent from the community can all be relative peers.

Moderator: As we talk about this, we are getting to where things are now, and this is perfect. In terms of staff, board, management, and measuring outcomes, I am interested in understanding the degree to which you knew you had to do these things and VPP just pushed you to do them. Or did you learn some things from VPP about what you had to do that you just hadn't thought of?

Pan: We weren't pushed, but the planning process was key. All the ideas came out then and were evaluated based on whether they were necessary for the direction we wanted to go. We learned a lot.

For example, it was clear that VPP felt strongly about the importance of having experienced staff members, and I didn't feel strongly about it because we had always had young people like us who would do whatever it took to get the job done. And that was the culture of our organization, with the performers on our staff always having fire in their bellies. So VPP wasn't pushing or shoving that aside but helping us think about ways to raise the bar.

For the most part, we were in alignment because we were all moving in the same direction. There wasn't very much pushing or shoving because many of the important steps were obvious. There are a number of things that our plan is premised on—for example, expanding the senior management team; securing some type of incremental funding like child care subsidies; investing in curriculum, training, and evaluation. And even though the environment now is as different as it can be from what it was then, the fundamentals of what we're trying to do are still the same, only more difficult.

Moderator: How has Heads Up changed since you started executing the plan? What has VPP done for you?

Pan: Planning was more than a year ago. One big change since we began executing

the plan, apart from new program sites, new staff, or new systems, is the way we think about creating growth maps. That change is just as valuable as anything else.

You asked what VPP has done for us. It is clear VPP is unlike other funders in at least three promised ways. First, the money. The investments are larger, longer term, and more flexible for capacity purposes. That is something that a lot of funders could replicate. The second is that they are highly engaged. They don't have as many grantees or investment partners so they can provide more strategic management assistance. The third piece—the one that we are all still trying to figure out—is the leverage. I think it remains to be seen whether we can institutionalize the leverage of their networks—for advocacy purposes, for fundraising, for building stakeholder support—especially now as the funding environment and political climate are getting more difficult.

Moderator: So the funding you talked about becoming available for capacity building. How have or can you use that?

Pan: We've expanded the senior management team to include a director of resource development, a director of finance and operations, and a director of programs. This has helped free Darin to take on the critical work of developing our partnerships with public agencies, schools, and universities.

In addition, we've been able to add staff with the expertise to improve curriculum, training and evaluation; to lead tutor recruitment; and coordinate our undergraduate service learning work. The general trend is toward more specialized positions, and, as we grow, we'll need additional capacity here.

Moderator: Versus before, when everyone was wearing a lot of hats?

Pan: Right. And that's a function of being a smaller organization. In addition, the support from VPP is helping spur other important developments: infrastructure issues like better accounting software and information systems to track program participants and program performance

On Leverage

“Looking at it now, on the list of non-cash value adds, the involvement of Jack [Davies, a VPP investor and advisor to Heads Up] and Fred [Bollerer] jumps to the top of the list. That includes their business advice and relationships, their mentoring, their commitment to making personal financial contributions and raising additional funds, as well as their ability to open doors for us.” —Pan

“We're trying to get to the point where VPP investors themselves are truly invested. So we hope Jack's involvement isn't just about his ability to help Heads Up but also his ability to model for his peers how they can make a significant difference in their communities. The power of VPP is to get these folks involved as true ambassadors or champions for our organizations and our causes.” —Pan

“If funders want quality, they may seek organizations that have some kind of stamp of approval by others. So VPP can slowly become a kind of stamp of approval.” —McKeever

more efficiently. These things help answer questions like, “What does attendance look like across sites? Are some sites doing better? Does it have something to do with the tutors? Are the freshman and sophomore tutors more effective than the juniors and seniors?” So there are lots of things that we can look at with an information system more quickly so we can respond more rapidly.

A difficult issue related to capacity that we are still trying to address relates to outcome measurements. With this funding, we were able to get some evaluators to help us think through our options and understand the pros and cons, null

things over with some board members and advisors. This is an area fraught with landmines so we're trying to proceed thoughtfully and carefully.

Another capacity issue is the breadth and depth of our stakeholder network. We're trying to get to the point where VPP investors themselves are truly invested. So we hope Jack's involvement isn't just about his ability to help Heads Up but also his ability to model for his peers how they can make a significant difference in their communities. The power of VPP is to get these folks involved as true ambassadors or champions for our organizations and our causes. That's what we need: champions who are willing to be as engaged as they would be for their for-profit financial investments.

Moderator: Are there unintended benefits or consequences from the relationship?

McKeever: One of the big questions when we signed the agreement was how our existing funders would react. As the year has borne out, whatever risks we thought we might be facing haven't materialized. What we see now is that there may be a benefit in having a relationship with VPP. If funders want quality, they may seek organizations that have some kind of stamp of approval by others. So VPP can slowly become a kind of stamp of approval. That's been an unexpected positive benefit.

Moderator: Did you have the same concern that Darin expressed, that this could affect other funders negatively?

Morino: Yes. We were very concerned about this. We had foundations tell us that if we were involved, they may move their funding elsewhere. We've not seen that.

Moderator: I would like to compare notes on how you see yourselves accountable to each other, and how each of you expects the other to be accountable to you.

Morino: I'll start. I think the accountability comes not so much from an external

assessment, which is the norm in the field, but rather is first established internally within the organization. We believe it is important to do all we can to encourage Heads Up and our other investment partners first to gain sharp clarity in terms of the outcomes, hard and soft, it seeks to achieve in the children it serves. Once this is understood, then we encourage them to think through how well their current programs and services lead to achieving these outcomes. We urge them to define ways to measure or assess how well they achieve these outcomes and, ultimately, what impact they are having. And, just as in my business life, I fought the concept that everything has to be measured. What is important is that Heads Up defines the critical information it needs to know. Then it does its best to collect data on the metrics that are measurable, and it collects whatever anecdotal information and feedback it can on those that do not lend themselves to quantification. The big challenge is to learn to use this information to manage the organization, to use this information to know what problems are arising and need attention, to understand what things are working and what are not, and to help the organization, at all levels, make better informed decisions. If the organization does this, then it has a stronger basis for reporting to the board and to other supporters, thereby ensuring an important transparency with its stakeholders. And VPP is one of those stakeholders.

Bollerer: I think that is key. What has happened, and what we hope happens with every organization, is that they internalize all of these things and we just go along for the ride helping where we can. What they use as their measurement mechanism, what they use as their success criteria, will be acceptable to us as long as they are thoughtful and fact-based. We get to monitor them on those criteria.

Pan: I think we hold each other accountable through mutual integrity. We have both done a really good job with this. Because of the strength of the relationship, there is trust and honesty. Because of the process involved, both organizations are fully invested. We are pushing hard toward the same milestones.

Moderator: You talked about the IT system and looking at some outcomes and ongoing improvements.

Pan: The evaluation piece, the outcome piece, is ongoing. We have a system that allows us to measure some quality issues, like the level of student engagement, our ability to implement the curriculum, or the nature of adult and student interactions. In terms of what actually changes for kids, it's inherently more complex, so we'll be piloting and rolling that out over time

McKeever: We are seeing more information-based decision making. We have only tiptoed into this area. Just to give one example, we talk a lot about coverage, this idea that we need to make sure we have sufficient tutors on the right days and at the right sites for the number of students scheduled. So now we have good systems with coverage charts to see where we can easily enroll more students and where we need more tutors. That is just a small difference that we made in the last year. I think with the introduction of this information system, we'll be able to make more smart decisions about how we devote our resources.

Moderator: How are you using some of the knowledge that you are trying to capture about the students and the impact on the students?

Pan: Many funders want it, so you need it to some degree for credibility. I think, though, the promise is oversold. A lot of people look at evaluations as research questions to be tested without enough attention to execution and implementation. What we see oftentimes in the field are program concepts that can work but that are under-funded, understaffed, and poorly executed. As a result they don't give us the types of good outcomes that we'd like to see. Those get misinterpreted as the concept being no good to start.

People want magic bullets. They want panaceas. They want a program to develop this magical formula that we give to kids so they succeed. But helping to raise and educate children doesn't have a medicinal type of solution. It isn't where you develop treatment and dosage so that

we just have to find the right treatment and the right dosage. It doesn't work like that. So when we get encouraging results, it's more important to ask why. And when we don't get encouraging results, we have to ask why not. And then we have to adjust and do better. Because changes occur slowly, the process needs to be somewhat organic and patient. Instead, a lot of these things get tested as binary—yes or no—especially in the public policy world. Interventions don't have enough time to work and evolve. They are tried for two years and that's it. That's not how to do it, especially with children, because that's not how children grow. Instead, we need to demonstrate better that there are common threads in things that work for kids, and then we need to get the community and the public to understand that investing in these common threads is critical. It takes time, and it is expensive to get it right—or at least it looks expensive. In reality, the alternative is much more expensive. What we spend as a consequence of underinvesting in children—through the court and penal system, through the child neglect system, through dependency on public assistance—is incredible.

So if you look at teen pregnancy, failure to complete high school, and involvement in the court system—just those three things—and then you look at many of the kids who end up in this type of trouble, you will see they live in poverty, their primary caretaker lacks steady employment and a high school diploma, and maybe they only have one parent at home.

But research shows that kids with these same backgrounds are able to make it when programs and people can provide some basic things: caring adults who they can look up to, safe places to be when they aren't in school, structured attention to help them achieve, a chance to contribute to the community to build their self image. The challenge is getting many more groups that can do a good job of providing these things and reforming our institutions to encourage and support them.

Moderator: You're talking about comprehensive impact.

Pan: I'm talking about a comprehensive commitment to the process and not losing sight of the forest for the trees. How to improve education is something that will be debated through our lifetimes and our children's lifetimes. Something like that is an ongoing thing; you never "solve" the question of education. You need resources and commitment to the process of improving it and making it excellent. It's the same thing with youth development and out-of-school time programs. This has very little to do with VPP, though.

Moderator: It's important if you are talking about measuring outcomes and what funders expect and look for.

Pan: A lot of folks think that nonprofits don't do evaluations because they are too expensive or they are afraid of the results. That might be part of it. But it's also that even good results don't always provide very useful information about what we should be doing more or less of. What we have to do is figure out a better way of defining success. Different types of organizations have access to more compelling versions of success. So a lot of programs that have been able to develop very strong outcome models are job-related programs working with adults, or maybe working with high school students and looking at college admission rates. So you can ask, did this person find a job and how long did he or she stay in that job? Did the student get into and go to college? It is very binary—yes or no—and it satisfies us. With elementary and middle school students, it's much more difficult. There's less agreement on good measures of academic and social development, and it can be simply impractical to isolate the many influences on kids' lives, from home to school to after-school program and so on. Satisfaction or success takes longer and may be years away. But we've been working hard on this and taking important steps.

Morino: We really have to come to grips with this. You're not going to get quantitative measures. And if you're going to think that we can or should, you're going to end up with the same myopic focus on standard level learning scores.

In the field of youth development, we are in a remarkably young field where there's an absence of empirical data and longitudinal studies to show us what's right and wrong. It's not healthcare. It's not community development. You're still in a relatively emerging field that's only existed for decades. I'm not saying you don't push for hard facts, but we do want organizations to do more to understand cause and effect. What is important from our standpoint—and we hope theirs—is that Heads Up has a clear understanding of their theory of change and how their program will help children develop and improve their lives and whether its impact is lasting and important. The second piece of that is the confusion between evaluation and outcomes in how the system works today.

Fundamentally, measurements are done much more for the funder than for the benefit of the organization itself. We believe that is a flawed approach. I learned long ago there are at least three types of information: that which is required by law (regulatory), that which is provided for someone else (to satisfy the interests of a board, an investor, or partner), and that which one uses for one's own purposes of running the organization. So in this regard, the nonprofits fill out their 990s (regulatory), provide what their funders want to see to appease them, and then figure out how to run their organization. I've come to depend on this latter source as the one that will best inform.

The trick in this field is that outcomes, and the measurement of outcomes, need to be inherently used in the management of the organization and the transparent accountability of that organization to its board. And when you can achieve that, then all the other stakeholders should be satisfied by that internal accountability. Getting an organization to that stage is a remarkable cultural and information systems step.

At VPP, we look at outcomes first, output second, organizational achievement third. First, outcomes for the people served—how are you changing the lives of children and how does that sustain itself, which as

Vin so well noted is very difficult. Second are outputs. Outputs are counts. Serving 600 kids in 20 schools is not an outcome but is an output and an important measure of activity. Third are organizational changes. So therefore, if you can establish a theory of change in the achievement of an outcome, then you know what the benefit is to the child. All of a sudden the outputs become very important because if you know you're achieving the outcome, then your outputs are a measure of how many children benefit. So growing from 500 mentors to 1,000 mentors when you know your program is subscribing to an effective theory of change means you've got positive change and, hopefully, long-term impact in the communities served. And if we can't get the theory of change down, it's really irrelevant.

Organizational change is getting an organization to sustain itself—taking those steps necessary to build a strong, lasting institution. You want to not only achieve outcomes for the children you serve, to do so for more and more children, but you also want to know that you're building and growing an organization that will continue to do so for years to come. And this means that you have to continually strengthen and improve your organization. You've got to look at key indicators—the strength of the management team, strength of the board, strength of financing and funding, strength of product and service, and

strength of management process—to ensure the organization itself is sustainable.

Moderator: Switching gears for a second. Can you start looking at some broader implications for more traditional funders?

Morino: Yeah. I think the investment analysis and in-depth due diligence pay off big time when one is considering making grants to a certain size and type of nonprofit. For some traditional funders there's going to be a greater assuredness that their money is going to a good cause. Changing the bar for how we select and fund organizations is another implication. For instance, we suspect there's a subtle change occurring here in the region on what planning is and the bar is being raised on planning—what it is, how it should be approached, etc. We're seeing it not just in the organizations we're working with but in other organizations they speak with.

Moderator: Do you see other investors looking for that strategic planning?

Morino: I think it's going to change the expectation when somebody sits down to talk about what a plan is. Over time, I think others will be less enthusiastic about doing their planning in an afternoon or at one two-day retreat. We'll see greater board involvement, more fact-based research to inform the planning

process, and executive directors demanding greater support to do more expanded planning.

As more organizations come out of the planning process talking about its benefits, we'll see a different picture of planning get portrayed. And I think there will be gradual changes in other funders because they're going to see the benefit of bringing in high-power talent to the table.

Moderator: Vin, Darin, I realize you are just in the implementation phase right now. What would you say are the key lessons that other funders should learn from this?

Pan: For our more traditional foundations, one lesson is that their impact might be greater in some cases if they focus their resources either in one issue area or on fewer organizations within an issue area. This can allow them to give equal attention, not just to search and selection, but also to assistance and leverage. So accepting applications and proposals and making good funding decisions is terrific. But the flip side is, after these groups are found, what more can be done to help them succeed? Advocacy is clearly one part of the answer.

We as nonprofit leaders have got to be clear about the visions for our organizations, about getting our boards involved

On the Board of Directors

“There is a tremendous importance in finding several highly experienced, thoughtful, rational minds on a board, and that makes all the difference in the world for the way you work together and build a strong relationship.”
—Morino

“One of the things that you want to get to is whether the executive director is open to working with a good board.... It starts by helping the executive director visualize the type of board needed, then make changes to the board if necessary to ensure the board is fully engaged. An engaged board will hold the executive director accountable. And, the board should likewise be held accountable to the executive director and the organization.”
—Morino

“Many nonprofits are unlikely to have a full complement of staff able to do all that must be done or provide everything that is needed. So you depend on the board members not just to be strategic and to provide accountability but also to roll up their sleeves at certain times and be involved in the design and implementation of specialized areas.”
—Pan

“When somebody takes a board seat, the first responsibility is to the organization as a fiduciary member of that board, not to VPP. That's what a board seat is about.... If there is mission alignment between the two organizations, if there is good leadership and agreement on the overall plan and milestones to be achieved, there is no real tension.”
—Morino

in creating those visions, developing realistic plans for achieving them, and then rallying resources to make it happen. Maybe that's what funders can start to look for from their grantees: a clarity of vision that is reasonable to attain and a leadership capable of developing such clarity.

Moderator: Along with the clarity that came from that planning process, has the culture of the organization changed?

Pan: Slowly. There is a greater understanding of the organization's overall goals, so it begins to bring people closer together. Ideally, everyone knows how their work fits in to the larger goals and how the person sitting next to them or working in another school is helping to achieve those same goals. There have also been some culture changes around accountability and performance. I think when we were a smaller organization, we didn't worry about those things very much because we could see everything going on and had terrific faith in the people around us.

We still have that faith, but because there are more people doing different things, we need to make sure efforts aren't redundant, that shared work is better coordinated, and that performers are rewarded.

McKeever: I think people reacted to the changes differently. Yes, there was friction. There was tension. Some people have left. Some have been asked to leave. Others have welcomed it. They felt that under the new set of performance measures and targets, they would be recognized and rewarded for all the contributions they felt they were making. So it has changed.

Moderator: When you compare your first meeting with VPP versus now, did you have a vision of what that relationship would be and how has it transpired?

Pan: I don't think I had a vision of the relationship with VPP. I think I had a vision of what Heads Up could be, and we wanted VPP to buy into that vision and help us achieve it. At a high level, the basic principles of where we're trying to go and what needs to be done to

get there have not changed. What has changed is that we're much better positioned to succeed. We still have a long way to go and a lot needs to fall into place, but our chances of success are clearly much better.

On Outcomes and Assessments

"I think the accountability comes not so much from an external assessment, which is the norm in the field, but rather is first established internally within the organization. We... do all we can to encourage Heads Up... first to gain sharp clarity in terms of the outcomes, hard and soft, it seeks to achieve in the children it serves. Once this is understood, then we encourage them to think through how well their current programs and services lead to achieving these outcomes. We urge them to define ways to measure or assess how well they achieve these outcomes and, ultimately, what impact they are having."
—Morino

"What they use as their measurement mechanism, what they use as their success criteria, will be acceptable to us as long as they are thoughtful and fact-based."
—Bollerer

"We are seeing more information-based decision making. We have only tiptoed into this area. Just to give one example, we talk a lot about coverage, this idea that we need to make sure we have sufficient tutors on

the right days and at the right sites for the number of students scheduled. So, now we have good systems with coverage charts to see where we can easily enroll more students and where we need more tutors. I think with the introduction of this information system, we'll be able to make more smart decisions about how we devote our resources."
—McKeever

"People want magic bullets. They want panaceas. They want a program to develop this magical formula that we give to kids so they succeed. But helping to raise and educate children doesn't have a medicinal type of solution. It isn't where you develop treatment and dosage so that we just have to find the right treatment and the right dosage... That's not how to do it, especially with children, because that's not how children grow. Instead, we need to demonstrate better that there are common threads in things that work for kids. It takes time, and it is expensive to get it right—or at least it looks expensive. In reality, the alternative is much more expensive."
—Pan

The Participants

Fred L. Bollerer is a former banker who is a partner at Venture Philanthropy Partners (VPP). Before his involvement with VPP, he was president and chief executive officer of Riggs Bank and chairman of the board and chief executive officer of First American Metro Corp. Earlier in his career, he was executive vice president of First City National Bancorporation in Houston.

He has been an advisor to VPP and to the Morino Institute, and he was president and chief executive officer of the institute's Potomac KnowledgeWay project, a nonprofit group that worked to build the telecommunications and Internet industries in the Washington, DC area. He received his BBA degree from Ohio University and his bachelor of foreign trade from the American Graduate School of International Management (Thunderbird) in Glendale, Arizona. Bollerer serves on the boards of INOVA Hospitals, The Federal City Council, the National Advisory Board of Child Trends, and Heads Up, as well as several for-profit boards.

Darin McKeever is the co-founder and executive director of Heads Up. McKeever received his BA in Social Studies from Harvard College, where he graduated Phi Beta Kappa. He has been a fellow with the Stride Rite Foundation and Echoing Green Foundation and is a graduate of Leadership Washington. McKeever is also a founding member of two local community groups, the Meridian Heights Community Association and South Columbia Heights Neighborhood Association.

Mario Morino is chairman and managing partner of Venture Philanthropy Partners (VPP), chairman of the Morino Institute, and a special partner with General Atlantic Partners, LLC.

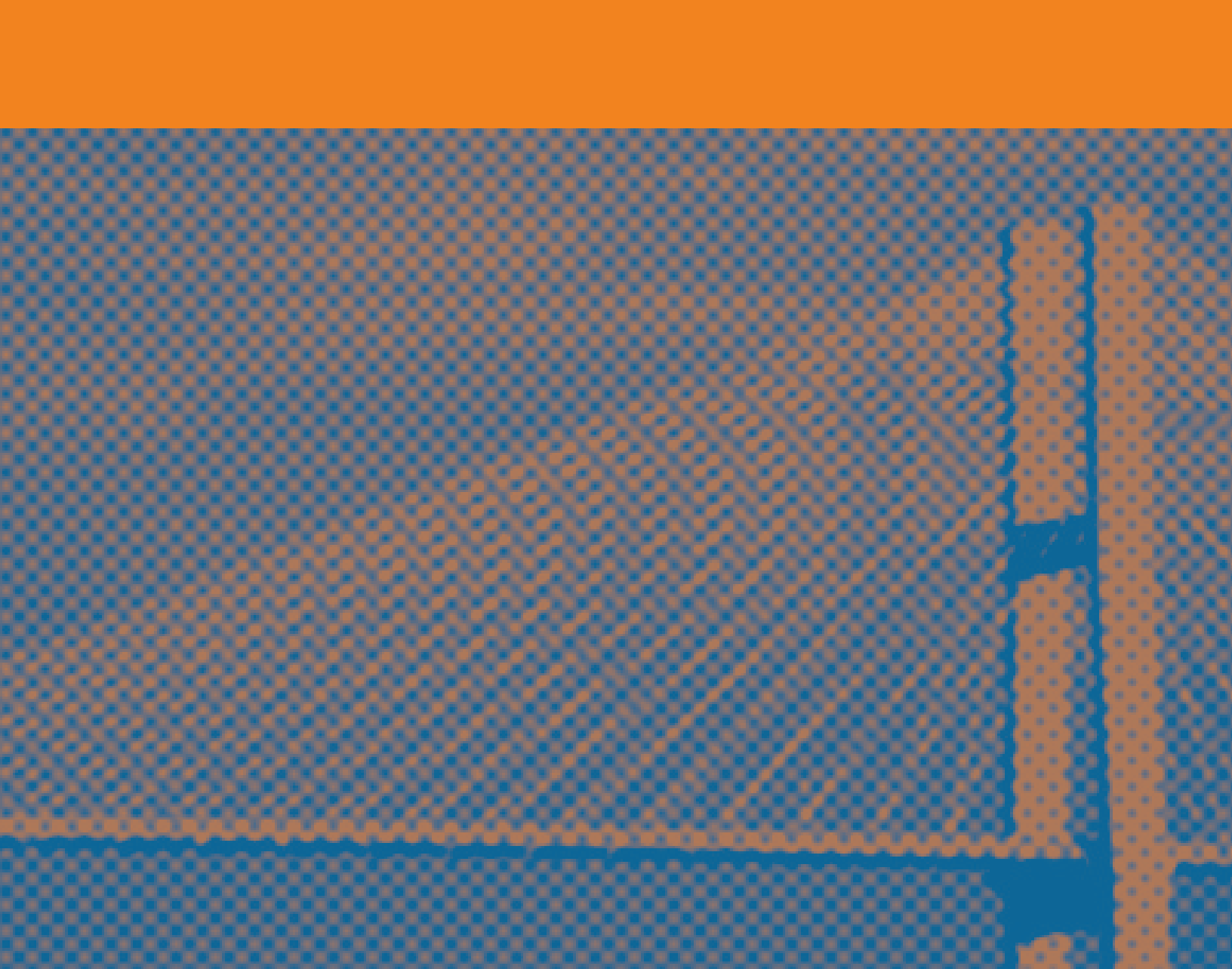
Before retiring from private industry in 1992, Morino enjoyed a 30-year career in information technology, where he co-founded and helped build a corporation that became a market leader and one of the industry's then 10 largest firms in software and services. Since 1992 he has focused his efforts on philanthropic innovation to benefit children and families of working poor or poverty backgrounds.

In his philanthropic work, Morino has sought to leverage his experience as an entrepreneur, businessperson, and investor to support nonprofit leaders in ways that help them grow and scale their impact for the children and families they serve. In 2000, he co-founded VPP, a nonprofit philanthropic investment organization that provides growth capital and strategic assistance to build, strengthen, and scale community-based organizations serving children of low-income families in the National Capital Region. VPP was incubated by the Morino Institute, a nonprofit organization that Morino founded in 1994, and whose current focus is on advancing VPP's efforts.

Today, Morino's private sector work is exclusively as a special partner with General Atlantic Partners, one of the world's leading direct investment firms focused exclusively on information technology, process outsourcing, and communications. In that capacity, he serves as a member of the board of Ai Metrix, one of General Atlantic's portfolio companies.

In addition, he serves as a trustee of Case Western Reserve University (his alma mater) and The Community Foundation for the National Capital Region, and as an honorary trustee of The Brookings Institution. Morino is also a member of the Advisory Board of the Yale School of Management-The Goldman Sachs Foundation Partnership on Nonprofit Ventures and the Board of Governors of the Partnership for Public Service.

Vincent Pan is the co-founder and was the founding executive director of Heads Up. He currently serves as an advisor to Heads Up. Pan is a graduate of Harvard College and has been a fellow with the Stride Rite Foundation, the Echoing Green Foundation, and the Center for Social Innovation at Stanford University. Pan is also a past winner of the Do Something Brick Award. Pan's additional community involvement includes board and advisory board service for Advocates for Justice and Education, DC Agenda, DC Action for Children, and the Nonprofit Roundtable of Greater Washington.



**Leadership Dialogue:
NewSchools Venture Fund, New Profit Inc. and
New Leaders for New Schools**

Overview

School principals are at the heart of New Leaders for New Schools, a program aimed at fostering high academic achievement in public school children. The organization pursues its goal by recruiting talented people from outside education to become urban school principals, providing them in-depth training, placing them in schools, and offering the ongoing support necessary for success.

The idea grew out of a two-page concept paper drawn up by Jon Schnur and developed during his graduate studies at Harvard Graduate School of Education. It was there that he met five forward-thinking people who ended up playing integral roles at New Leaders, of which Schnur became executive director.

One of those people was Kim Smith, CEO of NewSchools Venture Fund, a venture philanthropy firm based in San Francisco. When Smith and Schnur met, NewSchools Venture Fund had been exploring solutions to the leadership shortage in public education. NewSchools provided seed money to further develop Schnur's concept.

NewSchools, together with the Broad Foundation and another venture philanthropy fund called New Profit Inc. (NPI), provided investments that were critical to getting the fledgling nonprofit off the ground. In addition to offering financial resources, these three donors also helped the group's management team to organize a board of directors, define its goals and objectives, and flesh out a strategic plan.

The three funders also invested a great deal of time identifying roles for themselves that would put them in a constructive position to guide New Leaders. At various points in the organization's evolution, as different skills were called for, different "leaders" among the funders took center stage. Initially, NPI focused on helping set up a balanced scorecard to plan the nonprofit's growth and measure the results of its work. NewSchools took charge of helping develop the organization's plan to measure and evaluate its educational impact.

Having three highly engaged funders involved at one time could have wreaked havoc, with each one making competing demands and pursuing different visions. To avoid those conflicts, the three spent a great deal of time from the start to ensure they were in agreement and spoke with one voice.

All participants cite this early effort to achieve a unified focus as critical to the organization's success. Schnur, aware of the risks of multiple high-engagement funders, required consensus among them so that he would be working with only one strategy.

In many ways, the funders' approach echoed that of venture capitalists in the for-profit world. Starting with the early strategic planning sessions, the three discussed and challenged every detail of New Leaders' plan. Although the core concept and approach of New Leaders were never in question, these sessions allowed the funders to agree on how the organization could best achieve its objectives.

As is common with for-profit venture capitalists, both NPI and NewSchools took seats on the board of directors. That position allowed them each to ensure that their investors' money was creating as much impact as possible. It also invested them in the success of New Leaders—not as outside funders demanding results but as participants in key decisions who were accountable for the results.

This approach has successfully leveraged the complementary strengths of each funder. Kim Smith cites the venture capital world as the model for how NewSchools operates; it specializes in an industry—in this case education—becomes expert in that industry, and invests in that industry with both intellectual and financial capital. NPI focuses on building organizational capacity and providing many of the tools available to the for-profit sector (e.g., high-level strategic planning) to its nonprofit portfolio partners.

Through open and constructive communication about the desired outcomes, this group has avoided many of the pitfalls that might befall a coalition of high-engagement funders involved in a start-up organization. As Smith notes, "Everyone's individual success depends on our collective success."

About the Organizations

NewSchools Venture Fund is a venture philanthropy firm that seeks to transform public education through powerful ideas and passionate entrepreneurs so that all children—especially those underserved—have the opportunity to succeed in the 21st century. NewSchools Venture Fund raises early-stage capital from institutional and individual donors and invests it in nonprofit and for-profit ventures led by promising education entrepreneurs who are creating high-quality, scalable solutions that address the most critical problems facing education. And, because education is complex and change-averse, NewSchools fortifies its positions with thought leadership designed to foster an environment conducive to high performance and to real change.

New Profit Inc. is a nonprofit venture philanthropy firm committed to the practice of high-engagement philanthropy and the evolution of a new market for social change. New Profit's goal is to effect large-scale social change by applying strategic investment practices to philanthropy. New Profit operates a performance-based fund that, in combination with an infusion of strategic resources, supports social entrepreneurs in growing proven nonprofit organizations to scale; New Profit Inc. also works to build a community of investors who are committed to the exploration and definition of a new market that invests in social enterprise.

New Leaders for New Schools is a national nonprofit organization that fosters high levels of academic achievement for every child by attracting and preparing the next generation of outstanding principals for urban schools. It provides rigorous, hands-on training (including coursework, a yearlong residency with a mentor principal, and three years of on-the-job coaching), helps place its graduates in urban public schools, and provides them with ongoing support, networking, and a community of peers after graduation. New Leaders is dedicated to leaders with dreams of creating and leading schools that prepare all of our students for the 21st century.

By the Numbers

NewSchools Venture Fund

Funds Granted:

NewSchools has invested or committed \$20 million to date from its first fund. NewSchools' second fund will offer a \$40-60 million investment pool.

Staff Size:

15

Geographic Area of Focus:

Nationwide

Types of Organizations Funded:

Entrepreneurial ventures focused on addressing the needs of strategically targeted areas within K-12 public education

New Profit Inc.

Funds Granted:

Through its "evergreen" fund, New Profit has invested or committed nearly \$10 million to date in cash and \$12 million in consulting services from the Monitor Group and other executive partners.

Staff Size:

9

Geographic Area of Focus:

Nationwide, headquartered in the Northeast

Types of Organizations Funded:

Systems-changing nonprofit models led by social entrepreneurs

New Leaders for New Schools

Year Started:

2000

Annual Operating Budget:

\$5.7 million

Mission Focus:

Fostering high academic achievement through outstanding school leadership

Services Provided:

Recruitment, development, and support of new principals for urban schools

By the Numbers

Funder/Nonprofit Relationship (NewSchools Venture Fund and New Leaders)

Year Relationship Started:
2000

Expected Length of Relationship (in years):
10

Total Dollars Granted to Nonprofit to Date:
\$1.3 million

Funds Committed Over Life of Relationship:
Have committed an additional \$800,000 over the next two years; more will be invested over the life of the relationship, but none of that has yet been projected

Number of Hours of Funder Assistance Provided Annually:
Approximately 225

Funder/Nonprofit Relationship (New Profit Inc. and New Leaders)

Year Relationship Started:
2000

Expected Length of Relationship (in years):
8

Total Dollars Granted to Nonprofit to Date:
\$300,000 plus approximately \$1 million in pro bono consulting by the Monitor Group

Funds Committed Over Life of Relationship:
Currently finalizing a four-year \$840,000 commitment

Number of Hours of Funder Assistance Provided Annually:
Approximately 1,000

Dialogue

The following excerpts are from several conversations held in August 2003 at the offices of the NewSchools Venture Fund and Community Wealth Ventures. Participants were:

- **Vanessa Kirsch, Founder & President, New Profit Inc.;**
- **Jon Schnur, Co-Founder & CEO, New Leaders for New Schools;**
- **Kim Smith, Co-Founder & CEO, NewSchools Venture Fund;**
- **Joanne Weiss, Managing Partner, NewSchools Venture Fund; and**
- **Alfred Wise, Community Wealth Ventures, moderator.**

Moderator: Let's discuss the progress of your relationship, and let's approach it chronologically. How did you two funders find New Leaders and how did New Leaders find NewSchools Venture Fund and New Profit Inc.?

Schnur: In the fall of 1999, I had come to Harvard for what was to become an individualized master's degree at the education school. I wanted to take a concept and turn it into a new nonprofit organization dedicated to improving public education dramatically through effective leadership at the principal level. At that point, I had no team and no funding. All I had was a two-page concept paper.

I took a class at Harvard Business School called 'Entrepreneurship in the Social Sector,' which led to a number of very good things. The five of us who wrote the New Leaders business plan—some from the business school and some from the education school—were all in that class. That class led us to New Profit and Vanessa and NewSchools Venture Fund and Kim.

Vanessa liked our idea, and New Profit had a track record of helping nonprofits grow to some scale. At the same time Allen Grossman and Jim Austin, who were co-teaching the business school class, convened a forum for venture

philanthropy, or highly engaged philanthropy, that included people from New Profit and NewSchools Venture Fund, and Kim was there. We were really impressed with her and with the focus and the approach of the NewSchools Venture Fund. Kim read the concept paper and said she was interested in further conversations over the next few months. These two organizations, and the Broad Foundation, gave us lots of helpful, critical feedback on the business plan as our team was developing. I had no idea at that point what an important role these organizations would play over time in creating and helping make New Leaders successful.

Smith: We had done an analysis of the public K-12 education system and had identified important points for entrepreneurs to tackle. One of them was preparing school principals for an impending principal shortage and to improve their leadership and management practices. I was at Harvard for a conversation among funders on venture philanthropy issues when Jon handed me the concept paper, and I told him this was exactly the type of thing we were looking for. When you are doing venture capital or our version of venture philanthropy, you have an analysis of the market that you are working from that includes those areas in which you believe important things need to take place. Jon's ideas fit perfectly into one of the key areas we were looking for.

Moderator: Vanessa, how did it fit in with the New Profit model?

Kirsch: In general, New Profit has focused on investing in "second stage" organizations. But we always begin with the quality of the entrepreneur. Even though New Leaders was at a pure start-up stage, their blend of people and product was incredibly impressive and exciting to us. We believe that there is nothing as powerful as a good idea in the hands of a social entrepreneur. So when I met Jon, Monique, and Ben, it was obvious that this was the right team and that they needed to get going quickly.

Ed Cohen and Mark Nunnally, who are on the board of New Profit, met with Jon and Monique and said, “This is a winning team, and we have to invest now.” Ed, in particular, pushed us to move quickly. He is a founding partner of General Atlantic Partners and the founder of Echoing Green so he has a track record of investing in start-up organizations by social entrepreneurs. We felt that New Profit could make an early investment that would free up these incredibly talented people to focus exclusively on their vision and plan. Ed committed to invest \$100,000 if NPI invested \$150,000. Our board approved it right away.

Moderator: So you moved a little outside your area of focus with New Leaders because of the concept or because of the team?

Kirsch: Number one because of the team, and number two because of the concept. If we were considering investing in New Leaders today, they would meet all of New Profit’s selection criteria, which include assessments of mission and social impact, social entrepreneur and leadership team, previous performance, capacity for growth, and fit with New Profit.

Weiss: New Leaders was a more natural fit for NewSchools because our approach has consistently been to start with early stage ventures and help them build their organizations. So from that point of view,

starting with two people and a concept paper was not uncommon for us. NewSchools, unlike some other funders, is very industry-focused and mission-focused. The big picture goal for NewSchools is to transform education through entrepreneurship, hence the focus on the early stage investments. Human capital, in general, and teachers and leaders, in particular, were among the key leverage areas that we were interested in, so New Leaders fit squarely within our strategic focus.

The other social screens for us are: Does the venture have the potential to have a direct and measurable impact on student learning? Does it have the potential to have a catalytic impact? That is, beyond the impact that it has directly on students, could it have a broader impact on the entire system? It seemed to us that this was possible with New Leaders.

In fact, we think it’s possible that New Leaders will actually have a bigger catalytic impact than direct impact. What New Leaders is doing to change the way the system thinks about the issue of leadership is potentially a bigger win even than the one million children whom New Leaders principals will someday be leading. We thought—and still think—that there is a high probability that New Leaders will have a big impact on the system that’s disproportionate to the size of the organization.

The other two social screens that we use are scalability and sustainability. Is the venture going to be scalable, and thus able to affect thousands, tens of thousands, hundred of thousands, or millions of children? With New Leaders, we thought the jury was still out on this because New Leaders is such a service-intensive and human capital-intensive business. The other screen is sustainability. Will New Leaders be able to figure out a way to sustain itself—financially and otherwise—so it will be around long enough to have the desired impact? That too, in the early years, was a question mark.

Moderator: When you are looking at investments, how do you assess leadership?

Smith: We think about it in a couple of ways. One is specific to the venture. Different types of business models require different types of expertise on the team. And we look at both the executive team and the board—because that is how we think about leadership, as a combination of the board and the team. Do they have the kind of board they are going to need to get this particular type of work done?

On the executive team, we are looking at how the pieces of the team fit together. There is not just one archetype for a successful entrepreneurial team. People can be combined in different ways into very successful teams. As a whole, the

On Roles and the Relationship

“Our differences as funders complemented each other, and we set out to support New Leaders from our respective experiences and networks.” —Kirsch

“Everyone was very involved and what was incredible to us was that we weren’t having three separate conversations. We were having one conversation where topic-by-topic, different funders could take the lead but with involvement and consultation with other funders.” —Schnur

“Each of us would take the lead when appropriate. It is obvious that different strengths are needed in leaders at different times. I remember at the beginning thinking, either this is going to be a total success or this is

going to be nightmare for Jon. I think it has turned out to be very, very positive.” —Kirsch

“The mission and values have been aligned and clear from the beginning, and those haven’t changed. A lot has changed underneath, but the highest level of the mission was very clear and we all believed in it—that and the communication are what kept us all moving together in one direction...” —Weiss

“It is very important to have open and constructive communication. Jon created a culture in which people could ask him tough questions and engage in the dialogue....everyone’s individual success depended on our collective success.” —Smith

team has to have a sense of urgency. They have to be customer-focused and quality-focused. They have to be not only smart but also good learners. They need the tenacity to keep going when everyone says it cannot be done and the humility to know when to accept incoming information. That is a very difficult balance, but it is something Jon is very good at. He is tenacious. He will fight like hell to make something happen, but he will receive incoming information, too. And he wants to learn so he can make the organization the best that it can be.

We have an additional characteristic we look for in the leadership team as well: hybrid experience. A hybrid to us is someone who brings skills and insights from across the public, nonprofit, and private sectors because to build a successful, scaling venture in education, all three are necessary.

Moderator: Jon, what was some of the first work you did together and how did you even start?

Schnur: It was absolutely a team of people that made New Leaders possible. Some were with me at Harvard as co-founders, and some were at NewSchools Venture Fund and New Profit and the Broad Foundation as absolutely critical advisors. And there was Ed Cohen, who really helped take this idea and get it off the ground. I don't believe we would have had the prospects for success that we had without the depth and breadth of this kind of team.

Monique Burns was an original co-founder, and Monique had gone to business school and was getting her doctorate at the education school focused on what skills principals need to succeed. I had this framework for the creation of a national urban principals corps with the recruiting and the selection and training and a year-long residency in support, but I had very little real knowledge about what the content of the training ought to be, which Monique was spending her life on. She was interested in creating principal training academies.

Ben Fenton, who is now our chief operat-

ing officer, was another co-founder. He spearheaded the process of creating a business plan, which was entered into the Harvard Business School annual business plan contest. That contest is mostly for teams of Harvard Business School students creating for-profit companies. We became the first nonprofit semifinalist. At that point we shared the business plan with New Profit, NewSchools Venture Fund, Ed Cohen, and the Broad Foundation. We had a couple of sessions together in which these folks grilled our team, asking tough questions. This was a potentially supportive but skeptical group of people who cared deeply about whether we could accomplish our goals. They were asking rigorous questions about all of our premises and assumptions and how we could take this idea and bring it into action.

It was interesting from the beginning that no one was saying you should shift your mission. No one was saying you should shift your focus on the principals. No one was even really suggesting that we change anything about the content or the core beliefs. All the questions were on how to build the organization. We launched with the help of this essential advice and some start-up funding from NewSchools Venture Fund and from New Profit and from Ed Cohen.

Weiss: Kim, Vanessa, and Dan Katzir from Broad actually had some very explicit conversations with each other about what it means to have three engaged funders in a deal, what role each was going to play, and how we were each going to bring our own expertise to bear to make this organization successful. These conversations began early on.

Smith: We had a strategy meeting with all the funders in Boston, which Vanessa hosted, in which we did an all-day exploration session. Broad was there, New Profit was there, and we were there. The goal was to be sure what target we were shooting for. So we brainstormed on a number of different factors that Jon and the team felt would be appropriate around student achievement and what the interim indicators would be. NewSchools made a couple of early capacity-building

grants to Jon to buy him time to make more progress before he was ready to do a big multi-year pitch to us or to other foundations. We do that for a lot of organizations we work with because we are not afraid to get involved with folks early. It doesn't necessarily mean they will become part of our portfolio.

Kirsch: We were all highly engaged donors and we were the *only* donors. New Profit's expertise is in helping organizations go to scale, not in education per se. Our differences as funders complemented each other, and we set out to support New Leaders from our respective experiences and networks. New Profit played a role in developing a balanced scorecard. Then Dan and Kim took other parts of the engagement.

Weiss: Broad took the lead on the budget and financing part. Vanessa and New Profit took the lead on the balanced scorecard and high-level strategy part. NewSchools was focused on the education expertise and the entrepreneurship sides.

Smith: We agreed with Broad that it made more sense for us to do the early stage stuff because we were comfortable with that, and Broad wanted New Leaders to be further down the path before they came in. We did have some explicit conversations among the three funders and Jon to figure out what the different value-adds were from the different funders so we could best collaborate. We try to build on what already exists in the organization if we can, instead of having to make everyone start from scratch for us. I went through that as a nonprofit manager, having to do 10 strategic planning versions for 10 different funders.

Schnur: Everyone was very involved and what was incredible to us was that we weren't having three separate conversations. We were having one conversation where topic-by-topic, different funders could take the lead but with involvement and consultation with other funders.

Kirsch: That has been a recurring theme. Each of us would take the lead when appropriate. It is obvious that different

strengths are needed in leaders at different times. I remember at the beginning thinking, either this is going to be a total success or this is going to be nightmare for Jon. I think it has turned out to be very, very positive.

Schnur: Monique, Ben, and I were worried. We certainly had learned about the benefits and the risks of highly engaged philanthropy in our classes at the business school and had not seen any cases of three highly engaged philanthropies working as a team to create a new enterprise, and we were somewhat anxious about it. My biggest apprehension was that we would need to spend so much time in different conversations with funders with different objectives and different needs that it could distract us from the core work of building the organization.

Kirsch: Jon had a particular talent in convening different parties that helped us all from the beginning. He made it easier by always doing meetings together with all of us, instead of meeting with each of us separately. He set a collaborative tone, and that was a lesson to me about how important it is to set ground rules early on.

Moderator: Kim, did you have any hesitation or any doubts at that stage?

Smith: No, I had a very clear belief in the strategy, the focus, the product, and the team.

We have an unusual model in that we

have an investment partner group of about 20 people who come together for quarterly entrepreneur presentations and ultimately make our investment decisions. Then we have our team of experienced education entrepreneurs who work with the ventures. So there is an interesting nexus that happens at these investment partner meetings where our team will already have done quite a bit of diligence and capacity building with the team before we bring them in. Then the investment partners will react and poke holes in the plan and ask questions and push the team. No one at New Leaders had much management experience, but they had a sense of urgency. One of our core values is entrepreneurial spirit, and what we call being scrappy. These guys were clearly scrappy. I felt that with Jon, Monique, and Ben, they would either get it done or kill themselves trying.

At the investment partner meeting, I said we should take a leap of faith on these guys. On a scale of zero to ten—with ten being the perfect venture with the perfect team and the perfect strategy—maybe they were a six because there was some inexperience there. The experienced venture capitalists around the table were shooting for a ten, but I said, “They may be a six now, but they are going to move from six to seven to eight. They are going to get there.” And they did.

Moderator: So it sounds like part of it was communication and part of it was that the different funders have distinct core capabilities or areas of focus.

Weiss: Yes, but also I think it is that we deliberately talked about it and worked together and valued each other’s input.

The other thing is that the mission and values have been aligned and clear from the beginning, and those haven’t changed. A lot has changed underneath, but the highest level of the mission was very clear and we all believed in it—that and the communication are what kept us all moving together in one direction instead of becoming a group that was pulling at Jon from different directions.

Schnur: We as co-founders did a good job of being clear about our mission and our values and our core beliefs. The mission is to foster high levels of academic achievement for every child by attracting, preparing, and supporting the next generation of outstanding leaders for our nation’s urban public schools. Those core beliefs have been the same from the beginning: absolute belief in the capacity of every child to achieve at high levels; absolute belief in the importance of high-quality public education, especially in our high-need urban and rural areas; absolute focus and belief in the critical role that a principal plays in driving school teams to tap kids’ potential; a belief that we need to change education at scale so we need to think about leadership systemically; and a belief in the importance of partnerships. What I respected about all the funders is that they heard that up front, believed in it, and said, “Let’s get to the how.”

Smith: If the investor and entrepreneur are naturally aligned, then disagreements

On the Management Team

“Even though New Leaders was at a pure start-up stage, their blend of people and product was incredibly impressive and exciting to us. We believe that there is nothing as powerful as a good idea in the hands of a social entrepreneur.”
—Kirsch

“On the executive team, we are looking at how the pieces of the team fit together. There is not just one archetype for a successful entrepreneurial team.... As a whole, the team has to have a sense of urgency. They have to be customer-focused and quality-focused. They

have to be not only smart but also good learners. They need the tenacity to keep going when everyone says it cannot be done and the humility to know when to accept incoming information.”
—Smith

“No one at New Leaders had much management experience, but they had a sense of urgency. One of our core values is entrepreneurial spirit, and what we call being scrappy. These guys were clearly scrappy. I felt that with Jon, Monique, and Ben, they would either get it done or kill themselves trying.”
—Smith

On Leverage

“To have somebody who is there purely as a confidential coach is huge and is at least as important as the significant financial support we receive.” —Schnur

“One of my partners at NewSchools was intimately acquainted with what was going on in New York and was able to act as a strategic advisor to Jon behind the scenes as he was trying to manage the negotiations.... Partly it is a trust issue and partly it is an access issue that allowed us to help Jon when he needed it.” —Weiss

“We now have an agreement with the chancellor in New York to continue to grow our program for this coming year. I am not sure that would have happened without the facilitation of relationships and strategic advice that NewSchools and the Broad Foundation provided.” —Schnur

are just about how you get to your goals. In this case, all of us were aligned from the get-go. Where I have seen it get into trouble in other organizations is where everyone thinks they agree but they actually have different priorities.

Schnur: Another role that New Profit played was to help us build our initial management team. They played a critical role in helping us to bring Ben Fenton on as our chief operating officer.

NewSchools Venture Fund played a critical role in helping us think about our theory of change within the public education sector. New Profit was terrific in thinking about nonprofit theory of change, and NewSchools Venture Fund had thought deeply about how you change public education. They asked a lot of good, tough questions to help us rigorously think through what would be the consequences

of our success and how we could design this so our success would lead to the kind of catalytic impact we cared about.

Moderator: Describe your relationship now. What have been some of the outcomes of your work?

Schnur: At the outset we said we were going to create a national urban principals corps by recruiting and selecting individuals with exceptional potential. We wanted to transform public education so that all kids can reach their potential. We set out two goals. One is directly fostering high levels of academic achievement for a million children annually in 2,000 schools by 2012 through a 2,000-person principal corps. The second is to catalyze dramatic change in urban public education, particularly in the cities in which we work, but also nationally.

We saw the first phase of our work as building the organization and piloting our concept on a small scale so we could learn from it, make revisions, and grow at a larger scale. We started the first year with a pilot program that had 15 New Leader fellows in Chicago, New York, and the San Francisco Bay area. We had more than 200 people apply for those 15 slots. We created a training program that included an intensive summer institute focused on instructional leadership, organizational change, general management, and community leadership, followed by a year-long full-time paid residency in which the New Leaders fellows took on significant responsibilities in schools as resident principals under the supervision of mentor principals. The residency year would have a positive impact on the schools, and additional coursework during the year would prepare the fellows to become principals or assistant principals the following year.

We grew from 15 to more than 30 fellows in our second cohort in the same cities. We then made some significant revisions in the program based on what we had experienced. We decided not only to grow within the cities we were in but also to expand geographically. We held a competition in which we asked cities across the country to apply to become the next New

Leaders site. We selected Washington, DC, as our next site. We are now creating a partnership in Washington that has just begun this summer with an 11-person corps and will grow to more than a third of that school system’s principals in the next three years. We have reached an agreement with DC that provides high-performing principals the ability, by contract, to get far broader latitude of decision-making in schools, giving them more control over the hiring of staff based on merit, not seniority. We want them to have greater control over their budget, operations, and curriculum in exchange for demonstrating performance. That is a landmark agreement in the country.

Weiss: And it extends to all high-performing principals in the District, not just to the New Leaders principals, so it is an example of how you can change the whole system by being a small part of it.

Schnur: That is one example of a value that we had early on, which was to give good people more latitude to make decisions in schools. We are only three years into this, and already we are fostering high levels of academic achievement for kids in schools led by our principals. We have just finished the first year in which schools are being led by our principals, and we are still collecting and analyzing the data. But we recently saw huge gains in academic achievement in schools in Chicago that had New Leaders residents. The gains were not only far greater than those of other schools in the system, but they were also far greater than the gains made the previous year under the same principals. The gains were significant—there were 10 to 12 percent increases in reading and math.

We have 100 New Leaders now, who in this coming year will be in schools serving 50,000 kids. Experts say there is no better leadership training program than ours in the country. We have gained insights into the criteria needed to select principals and what the training program should look like. We have made some mistakes and we have learned from those. We have started capturing the failures and successes and transforming not only the program but also our systems and the processes

and the criteria by which we operate the program. We are still early in our lifecycle, but for us it is crucial that over the next three years we begin to see results that look good on the balanced scorecard in terms of how we are managing the organization. By 2006 we expect to see gains in student achievement on a big scale. According to the business plan, we are in schools that are going to be serving 150,000 kids by 2006, which is larger than all but a handful of the largest urban school systems in the country.

Moderator: How did you determine how many kids could be served and what the timeline would be?

Schnur: The growth strategy has been one of the most important topics of conversation at the board level. It has been one of the most helpful contributions that the board and New Profit and NewSchools and Monitor and the Broad Foundation have made in helping us rigorously think through our growth plan.

Weiss: All of us have been interested in scalability. It was part of the original plan for everybody. The question of how you get there is very complex and is constantly changing. The first argument was depth versus breadth.

Kirsch: From the get-go, growth was key. Even before any funders were at the table, New Leaders had big aspirations. Having multiple highly engaged donors has shaped everyone's thoughts about growth. If we were not as deeply engaged in this investment, the numbers might not really mean much to us as metrics, but I think that all of us understand what is going on and know the organization's capacity.

Schnur: It also tempers the kind of potential meddling that could take place from a big but unengaged funder that wanted to shape how things went. No board member in his right mind would at this point say, "Well, this is so good that we need to start expanding this to 10 new cities a year."

Weiss: But from the outside, you could say that if you weren't engaged.

Schnur: People from the outside do. Some people may worry that the high level of engagement could lead to more "meddling," but we have found that engagement has led to very constructive help and appreciation for how to achieve our goals.

Moderator: So how would you say that besides hitting certain measures, you are accountable to NewSchools and New Profit? Likewise, what do you feel your accountability is to Jon and his team?

Weiss: The balanced scorecard is so data- and outcomes-focused that it drives the entire organization to think in terms of accountability. Any of us can pull out a one-page document and say, "Here are the goals for this year and they are all quantified. Here is exactly how we are doing on a quarterly or annual basis." As a framework, the balanced scorecard has been extremely helpful, but, more importantly, it has made the culture of the entire organization very accountability driven.

From NewSchools' point of view, we have a couple of additional things we ask our portfolio organizations to do. We ask them to complete a quarterly report on a variety of dimensions. They have to report on how they performed against their goals from the previous quarter and what their goals are for the next quarter in terms of organizational capacity, growth, and execution. In addition, there are a number of specific metrics for outcomes and catalytic impact that we track on a quarterly and annual basis across all of our organizations.

Another way we hold the nonprofit accountable is to disburse money to the organization based on hitting milestones. These milestones, mutually agreed upon, are consistent with the venture's mission and strategy, and in New Leaders' case, are a subset of the balanced scorecard goals.

Moderator: What do you do if they don't hit them?

Weiss: We always take a board seat on all of our investments. If we find out

something new on these reports, then it's our fault because we should know the status. These reports should just be our organization's way of confirming and documenting what's going on. If an organization did not hit its growth target and we understood why and were part of the decision to change it, that would be fine. If they did not hit the target because they had done something different from what they and the board had agreed to, then it's a different story.

Kirsch: To me, the balanced scorecard is a tool to align the community of stakeholders, which includes New Leaders' staff, all the way to the city directors, the fellows, and the board. We are all now on the same page. We all know where they are trying to go. I feel as accountable to New Leaders achieving their goals as they do.

Smith: It is interesting to think about accountability across the capital markets— for-profit and nonprofit. A venture capital firm is establishing its brand, and, so if you don't serve your entrepreneur well down the road, entrepreneurs will not pick you as a venture capital firm. Generally, on the nonprofit side, it doesn't appear to me there is any accountability between foundations and the nonprofit organizations they fund. A program officer and a foundation are not held accountable for what happens with the things they fund. For us, a big part of our success as a firm is whether the things we are supporting are successful.

One of the things I wrestle with on the question of whether an organization is successful is that the answer changes over time in such a dramatic way. What is the appropriate time window to ask that question? There is this value equation that social entrepreneurs need to think about when they consider working with an engaged philanthropist. It is not merely the cost of the time I have to spend doing the planning. It is the benefits of the dollar they give me, the benefits of the connections they give me, the benefits of the strategy assistance they give me. The nonprofit must net it out over time and decide if it is valuable or not. You need about a three-year time window.

That is not to say you couldn't fail in a shorter period of time. You could be terrible and everyone knows it within six months. But generally you need a three-year window because it is a heavy cost to entrepreneurs in the early part when they are working on their plan and feeling like they have to do so much work to get this money—and it probably isn't all that much money. But then over time, their strategies get nailed down and they start to execute. So the equation is skewed. It is harder on the entrepreneur in the short run but over the long run, the entrepreneur has to feel like it's worth it.

Moderator: You raise an interesting question, Joanne and Vanessa. Are you both on the board?

Weiss: Yes.

Kirsch: Yes.

Moderator: So you are wearing two hats as funder and as board member. How do you juggle having two fiduciary obligations?

Weiss: I don't see it as being any different from when a venture capitalist sits on a board.

Kirsch: I don't either because New Profit's investors have asked us to invest their money well and to achieve high impact. I am doing that by investing in New Leaders and sitting on the board. If New Leaders isn't hitting its goals, my investors say to me, "Vanessa, what are you doing wrong?" They don't say, "What is Jon doing wrong?" We once had an organization in New Profit's portfolio that was wobbling and our investors said, "You have to go to the wall for this organization." They saw the wobble partly as a result of something we were doing wrong. This is a different sort of accountability structure than other funders might have.

Smith: I would say that in the conversation around taking a board role, many traditional philanthropists say they don't want to have that big an impact on a nonprofit organization strategy—which I honestly think is disingenuous because

in fact foundations have that impact all the time by deciding what they are willing to fund. They often do directed giving. Nothing has more of an impact on an organization's strategy than directed giving. Having said that, I do think we have learned that taking board seats is really complicated, and I think it goes back to the earlier comments about the life cycle of an organization and the time window.

I can't give you a simple answer about whether board seats are good or bad. There are tradeoffs. But I can say that in the for-profit world there is an expectation that you have every one of your investors on your board to add value and to represent their fiduciary responsibility. In the nonprofit world there is a much more amorphous set of expectations for board members. Some are there to add value in terms of the strategy or operations of the business. Others are there for different reasons, whether it is political or whatever. In nonprofits, it's often a good thing to have broad boards, but what complicates the answer is that the entrepreneur and other people around the table often have dramatically different expectations for what board members are supposed to do. So in Jon's case, he really wanted a set of engaged board members who were his investors. But he also had other advisors there whose opinions matter to him, so it was not totally driven by funders.

Kirsch: I was once in a Council on Foundations meeting where an attendee asked whether, if I were on the board of an organization, I would go to the ballet with one of my grantees. She asked this as if it were an ethical dilemma. Our perspective is that it is important to have strong, deep working relationships with our portfolio organizations, and a board seat can be a natural extension of that. Relationships are built in the boardroom and outside it. So, of course we would go to the ballet or a ball game with our grantees if it were in the context of deepening our relationship.

Schnur: As members of the board, we are a team jointly accountable for accomplishing goals. It does not feel like this is reporting to an outside entity. These are people rolling up their sleeves

and saying we have established goals and measures and how do we work together to accomplish those?

So far, we have hit our goals. That made it easier when we went to the NewSchools Venture Fund for a potential re-up of funding. We took the exact goals and language from slides we had presented three years ago about what we said we would do. We described what we did and it matched. We have accomplished our goals so far with a lot of effort and a lot of challenges. I would imagine if we had not together accomplished these goals in the first few years we would not be necessarily getting the level of financial support that we are going to be getting over the next couple of years.

Kirsch: Not all of the portfolio organizations we have invested in have experienced such a productive interplay among a group of highly engaged donors. It's a challenge when funding is tied to specific goals and those goals are not hit. Often, a donor is not engaged enough to feel comfortable adjusting those goals. I think there is a high degree of responsibility for donors to make sure their goals are truly aligned with those of their grantees and that they are not forcing something. This can seem like a fine line, but it is a line that is easier to identify and manage against if you are highly engaged. When you are highly engaged, you can see that an organization is not only succeeding or failing to strive towards a funder's goals; you can see that it is succeeding or failing to strive towards its own.

Weiss: This is different from most funding in that there is a lot of front-loaded work and pain from the venture before it starts getting the benefits from the relationship. We ask prospective ventures to put a lot of time into doing the plan, complying with all of our diligence requests (which as Jon can tell you are not trivial), and reporting back to us. There is a lot of work that they have to do before they get the first check, and that is because in our experience we need to really understand who and what we are investing in. We are making a very long-term commitment of time and money.

The benefit, if you get there, is that you typically get much more money than a traditional foundation grant would provide, and it's flexible money. You also get strategic advice and guidance; we are there, we are actively engaged, and you can call us anytime.

Moderator: You both have referred to your networks. Talk a little bit about what your networks are and how you leverage them to bring some help to this investment.

Weiss: NewSchools' network is made up of businesspeople—primarily venture capitalists and CEOs who are interested in the issue of education—education leaders, policymakers, and leaders from the non-profit world. We host an annual summit and an annual retreat just for our portfolio organizations. In both of these cases, we bring different groups of people together in forums that foster dialogue and networking. Then, on a case-by-case basis, we open our Rolodexes and use them on behalf of our ventures in a variety of ways. In this case, the search for the board was well structured; the team outlined the categories of expertise they felt they needed on the board. We discussed and finalized these. That gave us a clear idea of what names to bring forward. In different cases our network would apply in different ways.

Schnur: No one has ever forced relationships on us with particular people or

brought in particular board members. The funders didn't say, "Okay, we are going to have to build this board for you or choose who is going to come on." It was, "We are going to tap our expertise and networks to help you do this in a way so you can be successful." We learned how to build a board and then we did it with help from other board members rather than the board forcing relationships on us.

Weiss: I think that is an important point because when we use words like "highly engaged," it sounds like micromanaging or getting in there and doing the work. It really is not. We take a board seat, but we have a very clear idea of what a board member's responsibilities are. We are board members whose role is to guide and advise the organization and to hold the CEO accountable.

Kirsch: I feel accountable to Jon, to Joanne, and to the other board members, and this has helped create a culture that produces a higher performing board. High performance among board members is constantly reinforced.

Schnur: This took a lot of work, a lot of deliberateness, and a lot of explicitness. There is as much team building on this front as there is in building other teams. This is a risky area for organizations with "highly engaged" funders. Somebody could use that name without paying enough attention to how to do this

and could wind up prescribing and micromanaging inappropriately in a way that leaves the CEO and a management team not sufficiently empowered to lead the organization toward clearly established goals.

Kirsch: New Profit provides confidential coaching opportunities, tapping senior Monitor Group consultants to coach CEOs of our portfolio organizations. Jon has a relationship with his coach, Jim Cutler, that is independent of New Profit. When he faces challenges, including in his work with us, he can consult with Jim. In addition to being a sounding board for Jon, Jim can help to maintain alignment between New Profit and New Leaders and provide an additional line of sight between our organizations. This has turned out to be valuable to us and, I think, to Jon. I would like to see highly engaged donors make sure they include somebody else in the ongoing development of their relationship who has a different line of perspective.

Moderator: So you have provided someone you trust to be a coach but there is kind of a wall there?

Kirsch: Yes, and luckily, we have not yet experienced the downside of the wall or of the dynamics of this set of complex relationships to a significant degree. We did have a unique experience when the CEO of another New Profit portfolio organization told his coach that he was

On the Board of Directors

"We always take a board seat on all of our investments. If we find out something new on these [quarterly] reports, then it's our fault because we should know the status. These reports should just be our organization's way of confirming and documenting what's going on."

—Weiss

"New Profit's investors have asked us to invest their money well and to achieve high impact. I am doing that by investing in New Leaders and sitting on the board. If New Leaders isn't hitting its goals, my investors say to me, 'Vanessa, what are you doing wrong?' They don't say, 'What is Jon doing wrong?'"

—Kirsch

"I can't give you a simple answer about whether board seats are good or bad. There are tradeoffs. But I can say that in the for-profit world there is an expectation that you have every one of your investors on your board to add value and to represent their fiduciary responsibility."

—Kirsch

"As members of the board, we are a team jointly accountable for accomplishing goals. It does not feel like this is reporting to an outside entity. These are people rolling up their sleeves and saying we have established goals and measures and how do we work together to accomplish those?"

—Schnur

going to leave the organization before he told us, but that enabled the coach to help him in the process.

Schnur: The coaching relationship with Jim Cutler has been one of the most important assets to building New Leaders. This is one of the examples that illustrate the point that when highly engaged funders do it right, they give way more than just funding. Jim invests a ton of time. We have weekly conversations about managing the organization. He has helped facilitate team retreats. He has helped co-teach a course on organizational change. He has helped to counsel and advise us on management. He is an experienced manager and understands how to build organizations and HR systems and has been just a huge help to me in so many ways. I have felt throughout a sense of complete trust that it is a confidential relationship.

Joanne had said earlier that there is not much of a difference between the role of funder and the role of board member. That generally is true, but, at the same time, there is always a difference no matter how hard they work at it. To have somebody who is there purely as a confidential coach is huge and is at least as important as the significant financial support we receive from NewSchools and New Profit and others.

Weiss: A couple of other examples of the networks that we bring to bear. New Leaders has had issues with their relationship with New York City as New York went through the hiring of a new

chancellor and the recruiting of a whole new administration. There were questions about what that would mean for the ongoing relationship that New Leaders had. One of my partners at NewSchools was intimately acquainted with what was going on in New York and was able to act as a strategic advisor to Jon behind the scenes as he was trying to manage the negotiations. Similarly, the Broad Foundation has very deep relationships in New York City and was able to act in similar ways to Jon. Partly we acted as honest brokers to help the two sides because New York City and New Leaders trusted Broad and NewSchools to do the best thing. Partly it is a trust issue and partly it is an access issue that allowed us to help Jon when he needed it.

Schnur: New York is a great example. Joel Klein is the new chancellor of the New York Public Schools and has a really terrific reform plan for changing New York public education. I met him at a retreat that the Broad Foundation sponsored and began to develop a relationship with him. I got incredible help and advice along the way, in particular from NewSchools and the Broad Foundation. We now have an agreement with the chancellor in New York to continue to grow our program for this coming year. I am not sure that would have happened without the facilitation of relationships and strategic advice that NewSchools and the Broad Foundation provided.

Moderator: What have been some of the challenges and lessons?

Kirsch: This is the first time that New Profit has made a seed investment, so there have been bumps and we're learning along the way. The challenges that we experience around our work with New Leaders mostly has related to building a board from scratch. Initially, it was hard to develop a balance between planning and execution while we created a balanced scorecard and performance metrics. We struggled with goal setting because so much was unknown and experimental, and there was little data to go by.

Smith: One lesson for all of us was that it was very difficult to have a start-up organization with three heads because when New Leaders began, Jon, Monique, and Ben were co-leaders.

Moderator: So they had not delineated roles?

Smith: They had officially, yet not so much in practice because they were all very smart and talented people, and there was a desire to have as little hierarchy as possible. It was well-intended, but it is not possible to sustain that. It is not okay with funders, and that is true on both the nonprofit and for-profit sides, frankly. You can do all sorts of different things culturally in terms of how you deal with decision-making, but in the end there has to be one person who is ultimately responsible for everything. With New Leaders, that was cultural evolution.

Weiss: Another thing that has been hard for us is that NewSchools has gone

On Outcomes

“We have 100 New Leaders now, who in this coming year will be in schools serving 50,000 kids.... According to the business plan, we are in schools that are going to be serving 150,000 kids by 2006, which is larger than all but a handful of the largest urban school systems in the country.”

—Schnur

“The balanced scorecard is so data- and outcomes-focused that it drives the entire organization to think in terms of accountability. Any of us can pull out a one-page document and say, ‘Here are the goals for this year and they are all quantified. Here is exactly how we are doing on a quarterly or annual basis.’ As a framework,

the balanced scorecard has been extremely helpful, but more importantly, it has made the culture of the entire organization very accountability driven.”

—Weiss

“Jon has clear metrics. He has process metrics, such as how many people are we training and placing, and are they getting good jobs as principals in our target districts....And then there are outcomes themselves, such as how student achievement has changed in the schools that are led by New Leaders residents and by New Leaders fellows.”

—Weiss

through a lot of growth ourselves over the last three years. I am the third board member to hold the NewSchools board seat. It started with Kim Smith and then we passed the baton to Lauren Dutton, who is another one of our partners at NewSchools. So our growth has caused what might be speed bumps for Jon in getting each of us up the learning curve.

Schnur: Although there have been very few real bumps. One of the important reasons for the health and the ease of the relationship was the due diligence on both sides at the front end. NewSchools was screening and making decisions about whether they wanted to fund New Leaders, and we were making decisions because of the high degree of engagement about whether these were good partners for us. Some of the toughest discussions were in the diligence process. Once we got through those, there was real clarity of shared goals. I would say that one of the areas of discussion—and in some cases tension or disagreement—is the growth strategy and how fast we ought to grow. The Broad Foundation is our leading funder at this point and helped create relationships in school districts. It is supportive of the fastest growth possible, yet it understands that we need to do it in a way that achieves quality.

Moderator: How do other funders react to an organization that was incubated and grown through this high-engagement approach?

Schnur: Already a few funders have joined in because it helped give us some credibility. If NewSchools Venture Funds and New Profit and the Broad Foundation and the Chicago Public Education Funds are all backing this—very visible funders in the education and the nonprofit worlds—and they are on the board, then other funders don't have to worry so much about scrutinizing this grant because the original funders' reputations are on the line, too. For example, I think it made it much easier for us to get the Noyce Foundation to be supportive because of the NewSchools involvement. We have funders in DC that have gotten engaged because they knew of New Profit. We have gone from having three

funders to having 20-some.

Kirsch: I want to emphasize our commitment over time because I hear about so many funders that come in for one to three years then say, "You are on your own." New Leaders is such a massive idea. And this is a start-up, so it's going to take a while. They need the time. They have been able to accomplish what they have been able to accomplish because they are not spending 50 percent, 80 percent, or 90 percent of their time fundraising. If that were to happen in the next two or three years, New Leaders would be sunk. It is important to have a sense of the reality of what it takes to grow an organization at the speed they are growing. It is important to have on the table that this is a long-term investment. They will need runway capital for a while.

Schnur: One other thing: It has been very important to have the general operating funds from NewSchools Venture Funds, New Profit, the Broad Foundation, and others. What we now have is most of our administrative costs and overhead and general operations all covered at least for the next couple of years. To get to the scale we want by 2006—a 300-person principal corps in the schools serving 160,000 kids in a high quality way—we need to raise roughly \$21 million over the next three years, and we have a little over 40 percent of that raised already. It makes it easier to say to potential funders that we have highly engaged funders, and you can sponsor individual fellowships. For \$40,000, you can sponsor somebody in your city to become a principal of a school. That kind of funding is easier to get than infrastructure funding.

Moderator: Joanne, you mentioned the changing personnel and the growth of your organization. What are some of the lessons there in how you handle continuity?

Weiss: One thing that is good about NewSchools is that even though we are small and we bump into each other in the halls, we are a writing-oriented culture. We have invested in a knowledge management system that allows us to store and organize all of our information

in a coherent, accessible way. In our knowledge management system we have a section for each of our portfolio organizations. I can go back and see five years' worth of business plans, correspondence between the organizations, and board meeting packets. We hope that the net effect is twofold: that it will allow us to grow without having as much impact on our portfolio organizations, and that it will allow us ultimately to share a lot of lessons learned with the field because we have them organized in a coherent fashion that is easy to mine.

The other thing is that we try to hire people at NewSchools who know the business of education and are experienced themselves. One of the very big benefits for us of focusing on education as a sector is that we can bring industry and domain expertise to our ventures. Separate from ever having met New Leaders, I had been working in education for some 20-odd years and knew the space, knew the landscape, understood the policy issues. To be a partner at NewSchools, we have to have been education entrepreneurs ourselves; we have to have built and grown organizations in education. We have a specific focus and that gives us a baseline of knowledge before we walk into any organization. There is a really steep learning curve in education, and if our CEOs had to pull us up that learning curve, we would be of no benefit to them for a long time.

Schnur: The fact that she brings that expertise in building organizations to the table makes me want to spend time in meetings talking with her because it is a real benefit.

Moderator: Going forward, talk about the vision of New Leaders. How do you see staying with these relationships and growing beyond them?

Schnur: The future of New Leaders is the future we are trying to build together. We want to foster high academic achievement for a million kids annually in 2,000 schools by 2012 and to catalyze dramatic change in urban public education around leadership and beyond that. We have a ton of work to do in building our organization,

in taking aspects of our program that work on a small scale and figuring out how to build the systems and processes and metrics and people and teams to take it to scale in a quality way. We have partnerships that we need to broaden in both the public and private sectors. We have to help support a community of like-minded, talented individuals who are leading schools. We do have to execute our financial plan for the next two or three years and build a financial sustainability plan beyond that. We need to attract and retain team members and build our management structure in a way that supports that growth plan and ultimately to achieve results for kids and schools.

The challenges are immense, and I hope we will continue to have this kind of relationship with each of these highly engaged funders until we accomplish those goals. I hope we can sit around a table in 2012 and say here is how we achieved our plan and here is where we have missed and here is how we are going to adapt for the future. I hope we do that reflecting on 10 or 12 years of experience together.

Moderator: Do you have any recommendations for other nonprofit leaders who are considering this type of relationship?

Schnur: It is important to reiterate how crucial it is to enter these relationships with eyes wide open. This has gone very well so far because of the groundwork that we did together.

The only thing that would be extremely helpful to us with New Profit, NewSchools, and others would be if funders would develop more expertise, either on staff or by contract, in rigorous evaluation of outcomes in the education world for schools and for kids. We are building that, and we are going to have a good evaluation, but it does seem like there is a lot of re-creating the wheel. These funders could play a role by acquiring that expertise and helping share that with nonprofits working in the space.

Weiss: We are working on bringing more capacity to the question of doing impact

evaluation, both for NewSchools' benefit and for that of our portfolio organizations. The challenge is, how does each organization measure its impact, and how do we at NewSchools measure our impact across all of our organizations? The whole field is still weak in this area—I agree with Jon. It needs focus from all of us.

Kirsch: One of the exciting things that is coming out of our work with NewSchools and other organizations is the beginning of a real knowledge base about issues that we all struggle with, like measuring impact, connecting social impact with growth planning, and growing impact as well as size in sustainable ways. But there is a long way to go.

Moderator: On your balanced scorecard, I assume you have defined outcomes that you are looking to achieve.

Schnur: Yes. Each of these funders has, as we have, insisted on rigorous evaluation of success of schools and kids.

Weiss: Jon has clear metrics. He has process metrics, such as how many people are we training and placing, and are they getting good jobs as principals in our target districts—so there are those process ways of measuring outcomes. And then there are outcomes themselves, such as how student achievement has changed in the schools that are led by New Leaders residents and by New Leaders fellows. Members of New Leaders' first class of fellows have just finished their first year as principals, so the data are just coming in right now for the first year.

Moderator: So you are testing the model now?

Weiss: Yes. Jon and his team have set the metrics to match the mission of the organization, but the data are still to come; ask us how it went two or three years from now.

Schnur: We can give lots of updates on the way. We do expect to see better academic achievement in reading, writing, math, and other areas. We are working with people to develop a broader set of indicators around the health and success

of the school. Leading indicators of success might include a level of trust among the teachers, students, and parents in the school, and shared understanding among faculty about the school's academic standards. We believe that test scores do matter. We think that to see enduring improvements, you need to look over three years, not just one. Test scores are important, but they are not the only measure of success.

Moderator: Talk about the future. What do you see as your contribution to New Leaders' growth?

Smith: I definitely see us staying involved with them through a few more cycles. New Leaders needs to be larger and to have more success data to show that its theory of change really works. It takes time to get organizations off the ground. Then it takes time to have the impact on kids. So it still has a few more cycles to go before they can sit down with the president of a few universities and say, "You should be doing things differently. Look at the proof we have that this works."

I don't think, given the type of change they are trying to make, that it makes sense to force them to become totally self-sustained on a fee-for-service basis because their customer might sometimes be the very institutions they are trying to change. Fee-for-service should provide some percentage of income, but New Leaders also has a strong strategy around local fundraising. At some point, as its revenues grow, it may make sense for us to exit and for them to be working with their local funders. But we don't have a nice clean, crisp exit strategy yet.

Weiss: One of the unexpected things—and the magnitude of it has shocked me—is the catalytic impact that New Leaders has had on the system. DC Public Schools came in last year to the city competition and Baltimore Public Schools' top officials were calling New Leaders the expert in leadership training. I'm sitting there thinking, "New Leaders is two years old. Are you kidding? You think they are the experts?" But it is true that they have developed an incredible expertise in this area and that school districts are looking

for expertise.

One of the dangers is that New Leaders is not going to be able to survive its own success because it is spawning tremendous competition within these large districts, some of which are starting their own leadership initiatives. On one hand New Leaders is building a model that others can copy, which is wonderful. But the catalytic impact is sometimes so earthshaking that you wonder whether New Leaders will survive the earthquake.

Schnur: We are not the only ones causing this, but we are one important force. We spent months in the fall sharing our work with New York City and Joel Klein, and we are thrilled he has made leadership recruitment and development a centerpiece of his agenda. He has also created a leadership academy based in significant part on our model.

In Chicago they are doing some similar work, and some other cities are looking at it. The federal government passed the No Child Left Behind Act, and it included a section that created a national school leadership program, which gives funding to districts and nonprofits recruiting and training principals in high-need urban and rural schools. Districts across the country,

the federal government, and the states are focusing much more now on leadership as a key lever to drive change, and that is terrific. The question for us, as districts embrace this, is what is the role for New Leaders?

Weiss: And how do you work together? Do you co-exist? So even if you can come up with good answers to those questions, which I think you can, it is a whole new level of investment and thinking and strategizing that none of us had planned for, especially not this early in the process.

Moderator: What have been some of the key lessons you've gained?

Smith: One lesson is, it is very important to have open and constructive communication. Jon created a culture in which people could ask him tough questions and engage in the dialogue. He did not come to the table, as some folks will do with funders, feeling as if he had to have all the answers in hand. In turn, the three funders came to the table truly committed to trying to do what is necessary to help Jon be successful. It was a very good kind of ecosystem; everyone's individual success depended on our collective success.

If you are truly aligned in what you are

trying to achieve, it gives you more maneuvering room on how to go about it. Be explicit on the milestones and what people need to achieve to reach the funding targets.

I don't think Jon ever felt like what we were asking of him was some external burden he had to do to meet some arbitrary requirement on our part. I believe he felt that what we were asking for was what he needed to do anyway to be successful. That is important because if you are working as an engaged funder with someone, and you are asking someone to do a strategic plan, or different version of financials, or plan for growth, or build some systems, or whatever it is, and they feel like what you are asking them to do is arbitrary make-work, that is a recipe for failure. If you and they truly believe you are trying to build the same thing, then having those different perspectives at the table makes the whole venture stronger and better.

Kirsch: As we have lived the challenges of execution, as funders, board members, and champions of New Leaders's vision, we have learned that it is important to go slow to go fast. At times Jon has come to us and asked to slow down. Other times, we have, as a board, encouraged him to

On Impact of the Model

“We think it's possible that New Leaders will actually have a bigger catalytic impact than direct impact. What New Leaders is doing to change the way the system thinks about the issue of leadership is potentially a bigger win even than the one million children whom New Leaders principals will someday be leading.”

—Weiss

“We have reached an agreement with [Washington,] DC that provides high-performing principals the ability, by contract, to get far broader latitude of decision-making in schools, giving them more control over the hiring of staff based on merit, not seniority....That is a landmark agreement in the country.”

—Schnur

“And it extends to all high-performing principals in the District [of Columbia], not just to the New Leaders principals, so it is an example of how you can change the whole system by being a small part of it.”

—Weiss

“One of the dangers is that New Leaders is not going to be able to survive its own success because it is spawning tremendous competition within these large districts, some of which are starting their own leadership initiatives.... the catalytic impact is sometimes so earthshaking that you wonder whether New Leaders will survive the earthquake.”

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“We spent months in the fall sharing our work with New York City and Joel Klein... He has also created a leadership academy based in significant part on our model.... Districts across the country, the federal government, and the states are focusing much more now on leadership as a key lever to drive change....The question for us, as districts embrace this, is what is the role for New Leaders?”

—Schnur

take more time to get the core model.

We have also learned that as important as it is to work closely with Jon, it is also important for us to cultivate relationships with other members of the management team, to support their development directly and indirectly as Jon himself matures as a leader. Now members of the New Profit team have relationships with all of the senior members of the New Leaders team, so we don't need to only go to Jon, and his team members find outside resources in their relationships with us.

Along similar lines, we believe that it is critical for organizations to have multiple high-engagement donors because they bring such different assets to the table. At New Profit, we have focused our energy with New Leaders mostly on strategy and capacity building, and this would have been much less effective without NewSchools and Broad bringing their expertise to the process. There are far too few examples of effective partnerships like the one we have experienced with New Leaders.

Finally, while we spent a lot of time in New Profit's earliest years thinking about how to apply the lessons of for-profit investment to philanthropy, we are also

now able to better define what doesn't translate directly. We've learned, for example, that when there are problems, we must go to the wall for organizations in our portfolio to support their ultimate success, and we've learned that we can do this because we have established the kind of relationships that makes it possible to step in quickly and smoothly. In reaching their hugely ambitious goals, it's easy for organizations to wobble, especially since there is so little allowance for building deep bench strength in this sector. New Profit has a higher tolerance for getting organizations back on track than for pulling out. There's a sense that we need to work through challenges with organizations—there's no capital market to take them on if we pull out. At times, high engagement in this sector means higher engagement than in the VC world.

Moderator: Kim, with NewSchools Venture Fund being five years old, how do you see venture philanthropy evolving?

Smith: I have learned both from my work at NewSchools and from my work with our venture capital supporters that what is important is the individual who is coming to the table. People acknowledge that on the entrepreneur side, but they rarely acknowledge that it matters who the

individual is on the investment side. Venture philanthropy as a model is totally meaningless if it doesn't have the right people executing it. When you look at the venture capital funds out there and which ones are great and which ones are not, it comes down to the individuals who are doing that work, which is why there is almost no turnover in the venture capital industry among the top tier funds. When you become a partner at a top tier fund, you stay there for the rest of your life. They are very careful whom they bring in, and they watch that person's success on building ventures over time. If you are good, you stay forever.

But the consequence is that a lot of the knowledge is residing in individual brains, and therefore venture capital is not a scalable business. Most of the venture capital firms are very small and don't pretend they're scalable. That creates a strange dynamic on the venture philanthropy side of the table. I take more of a traditional approach to what I mean by venture philanthropy. You look like a venture capital firm. You invest in an industry or a set of industries. You get expert at what it takes to be successful in those industries. You provide human capital, intellectual capital, and financial capital. That to me is venture philanthropy.

On Venture Philanthropy

“There is this value equation that social entrepreneurs need to think about when they consider working with an engaged philanthropist. It is not merely the cost of the time... doing the planning. It is the benefits of the dollar they give me, the benefits of the connections they give me, the benefits of the strategy assistance they give me...it is a heavy cost to entrepreneurs in the early part when they are working on their plan and feeling like they have to do so much work to get this money—and it probably isn't all that much money.... It is harder on the entrepreneur in the short run but over the long run, the entrepreneur has to feel like it's worth it.”

—Smith

“There's a sense that we need to work through challenges with organizations—there's no capital market to take them on if we pull out. At times, high engagement in this sector means higher engagement than in the VC world.”

—Kirsch

“What is important is the individual who is coming to the table. People acknowledge that on the entrepreneur side, but they rarely acknowledge that it matters who the individual is on the investment side. Venture philanthropy as a model is totally meaningless if it doesn't have the right people executing it.”

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“I take more of a traditional approach to what I mean by venture philanthropy. You look like a venture capital firm. You invest in an industry or a set of industries. You get expert at what it takes to be successful in those industries. You provide human capital, intellectual capital, and financial capital. That to me is venture philanthropy.”

—Smith

There are many other ways to do engaged philanthropy, which is great, but if you are doing venture philanthropy, it's important who the individuals at the table are and what experience they bring.

Having spent 15 years in the education space, I sometimes got frustrated about the way the conversations were going early in this field because it seemed like it was all about the businesses that were coming in to fix the nonprofit sector. We have been very clear from the very beginning; culturally we are staffing our organization with people who are experienced education entrepreneurs. We were heavily influenced by our Kleiner Perkins founding donors, because at Kleiner Perkins the partners have all been experienced

entrepreneurs, too. So there is this cultural belief for them and for us that you are a better investor if you have been an entrepreneur.

The second piece we believe is these industries are complicated, and it is difficult to do a good job across industries. Environmental change, health care, human services, education, technology infrastructure, these are very different kinds of industries. By focusing and getting really smart in your space, you will add better value to your ventures.

Finally, we believe that solutions need to combine the best thinking from the public sector, nonprofit sector, and business sector. It is a good thing to have business

people at the table, but that is only one piece of the solution. Educators, public sector, and nonprofit folks have to be there, too, with the same amount of respect and influence because the different sectors have different things to offer. No one has the whole answer, so the more we can be aware of this and help to build bridges across sectors, the more successful we will all be.

The Participants

Vanessa Kirsch is the president and founder of New Profit Inc (NPI). Kirsch has 14 years' experience developing innovative solutions to social problems and is widely recognized as a leading social entrepreneur. Before launching NPI, Kirsch founded and led two nonprofit organizations, Public Allies and the Women's Information Network. Public Allies, a national service program based in Washington, DC, grew to six cities under Kirsch's leadership and was named by the Bush administration as one of eight model national service programs in America and by the Clinton administration as an official AmeriCorps national service model. Before launching these entrepreneurial organizations, Kirsch worked closely with Peter Hart of Peter D. Hart Research Associates, a polling firm, and played a key role in several projects, including a study on young people's civic attitudes.

Kirsch has received numerous public service awards. Currently, she serves on the Tufts Advisory Board to the University College of Citizenship and Public Service and on the boards of Jumpstart and New Leaders for New Schools. Kirsch is a graduate of Tufts University, where she served as a student member on the Board of Trustees and currently serves on the Alumni Council.

Jon Schnur is the co-founder and chief executive officer of New Leaders for New Schools. Schnur was a policy advisor on K-12 education in the Clinton administration for seven years, serving as White House Associate Director for Educational Policy, Vice President Gore's senior policy advisor on education, and special assistant to US Secretary of Education Richard Riley. Schnur spearheaded the development of many educational policies in such areas as teacher recruitment and training, after-school programs, school reform, and charter schools. Four years ago, Schnur spent several months at Harvard designing the business plan for New Leaders for New Schools while taking coursework at the Harvard Graduate School of Education, the Harvard Business School, and the John F. Kennedy School of Government. Schnur graduated from Princeton University cum laude in 1989 and from a public high school near Milwaukee, Wisconsin in 1984.

Kim Smith is co-founder and chief executive officer of NewSchools Venture Fund, which she established in 1998 with technology venture capitalists and entrepreneurs to improve public education by investing in education entrepreneurs. Smith began her career as a consultant specializing in business-education partnerships. In 1989, she became a founding team member of Teach For America (TFA). She then put her TFA experience to work in the post of founding director of BAYAC AmeriCorps, a consortium of 20 nonprofits serving youth across six San Francisco Bay Area counties and working together to develop young leaders in education.

Smith's background includes marketing experience with Silicon Graphics' Education Industry Group, where she focused on the online learning industry. She was also founding director of a trade show venture. She holds a bachelor's degree in political science and psychology from Columbia College and an MBA from the Stanford Graduate School of Business. She is a member of the 2002 Class of Henry Crown Fellows of the Aspen Institute.

Joanne Weiss is the managing partner at NewSchools Venture Fund. Before joining NewSchools, Weiss was chief executive officer of Claria Corporation, an e-services recruiting firm that helped emerging-growth companies build their teams quickly and well. Before her tenure at Claria, Weiss spent 20 years in the design, development, and marketing of technology-based products and services for education. She was senior vice president of product development at Pensare, an e-learning company that created business innovation programs for the Fortune 500 market. Before Pensare, Weiss was co-founder, interim CEO, and vice president of products and technologies at Academic Systems, a company that helps hundreds of thousands of college students prepare for college-level work in mathematics and English.

In the early 1990s, Weiss was executive vice president of business operations at Wasatch Education Systems, where she led the product development, customer service, and operations organizations for this K-12 educational technology company. She began her career as vice president of education research and development at Wicat Systems, where she was responsible for the development of nearly 100 multimedia curriculum products for K-12 schools. She holds a degree in biochemistry from Princeton University.



**Leadership Dialogue:
The Rockefeller Foundation and
the International AIDS Vaccine Initiative**

Overview

In 1993, while working as a health sciences program officer at the Rockefeller Foundation, Seth Berkley was struck by how few organizations were working to develop a vaccine for the AIDS virus. He understood that AIDS/HIV was increasingly becoming a devastating global epidemic, and he pushed to get the foundation involved in speeding the development and distribution of a vaccine.

Initially, the Rockefeller Foundation convened a series of meetings to bring together scientists, public health officials, and leaders from the pharmaceutical industry and non-governmental organizations to discuss ways to advance development of an AIDS vaccine. These meetings became the impetus for establishing the International AIDS Vaccine Initiative (IAVI).

HIV/AIDS has infected more than 70 million men, women, and children. IAVI's literature notes that the world has not experienced an epidemic as devastating as this since the great plagues of the Middle Ages. Most research efforts to date have focused on treating those already infected rather than on creating vaccines to prevent AIDS. Vaccine research and development commands only about two percent of the \$20 billion the world spends annually on AIDS research, prevention, and treatment.

After studying the issue, Berkley and Kenneth Prewitt, then senior vice president of the Rockefeller Foundation, recognized two important elements of the issue: First, most of the research on vaccines had focused on application in industrialized countries, despite the fact that the vast majority of new infections occur in developing countries; and second, vaccine development was an extremely high risk project. To for-profit companies hoping to ensure a profitable return on their investment, vaccine development posed too great a risk.

Peter Goldmark, then president of the Rockefeller Foundation, thought a public/private collaboration could be the solution. The result was IAVI, which was designed to mitigate the risk and costs but to encourage groundbreaking innovation in research and development.

Launched within the Rockefeller Foundation with the understanding that it would become an independent 501(c)(3), IAVI would advance the development of a vaccine. Its founders believed that once they had developed an early workable product, industry would acquire the technology and assume responsibility for scale-up, distribution, and sales.

The creation of IAVI surfaced several key questions and tensions within the foundation. First, it raised the question of how operational the foundation would be. In the 1920s and '30s, the Rockefeller Foundation was one of the largest and most successful operating foundations focused on global health issues with a staff of active researchers and scientists. By the 1950s, it had consciously moved into a non-operational role. But in the mid-'90s, IAVI, along with a few other initiatives being supported by Rockefeller, created tension within the foundation about the level of its operational involvement.

Moreover, IAVI's quest presented an enormous challenge. Funding the development of a product is fundamentally different than funding social services: Developing a product costs far more—in this case hundreds of millions of dollars—and is far riskier. Unlike a social services program, which even if not technically a success can still produce some good, a vaccine may not work at all. That risk weighed heavily on the board.

When IAVI was launched, the IAVI board as well as Rockefeller wanted to find a seasoned executive with a vaccine research background. After an extensive search during which two candidates declined offers, the IAVI board turned to Berkley to head the initiative. They decided that Berkley, as IAVI's founder, was the true entrepreneur who had the passion for the concept and should lead the new organization.

The Rockefeller Foundation used its leverage in a number of ways to help incubate IAVI. Beyond the scientific meetings that attracted some of the biggest names in the field, IAVI's association with Rockefeller opened doors with other funders. Berkley notes, "Had we just started as an outside organization, we would have had zero chance of doing this."

One of the great challenges that the Rockefeller Foundation and IAVI have encountered is the question of how long this relationship should continue. When the following dialogue occurred in October 2003, the Rockefeller Foundation, suffering a sharp downturn in its endowment, had stopped funding IAVI. The organization had been so successful in raising money from other foundations and through government grants that the Rockefeller Foundation decided IAVI could survive without its support.

Berkley clearly disagrees with this assessment. He believes that Rockefeller should continue its support as a signal to other funders of its commitment and that IAVI will need its support during the many years necessary to develop a vaccine. The challenge, he notes, is for funders to invest in the long term—15 to 20 years—to achieve a solution, which is a commitment few foundations are willing to make.

About the Organizations

The International AIDS Vaccine Initiative (IAVI) is a global organization working to speed the development and distribution of preventive AIDS vaccines. IAVI's work focuses on four areas: mobilizing support through advocacy and education; accelerating scientific progress; encouraging industrial participation in AIDS vaccine development; and assuring global access. IAVI was born out of the recognition that the best long-term solution to the growing AIDS epidemic is a vaccine.

The Rockefeller Foundation is a knowledge-based global foundation with a commitment to enrich and sustain the lives and livelihoods of poor and excluded people throughout the world. Its grantmaking is organized around four thematic lines of work: Creativity & Culture, Food Security, Health Equity, and Working Communities.

In addition, the Foundation supports various regional and special programs, among them the Africa Regional Program, Southeast Asia Regional Program, Communication for Social Change, Public/Private Partnerships, and Global Philanthropy.

The Rockefeller Foundation focuses on joining forces with governments, industry, other foundations, and nongovernmental organizations to ensure that poor people are included in decisions that affect their lives.

By the Numbers

Rockefeller Foundation

Funds Granted Annually:
\$136.2 million (2002)

Staff Size:
150

Geographic Area of Focus:
Worldwide

Types of Organizations Funded:
Grantmaking is organized around four thematic lines of work: Creativity & Culture, Food Security, Health Equity and Working Communities. In addition, the Foundation supports various regional and special programs, among them the Africa Regional Program, Southeast Asia Regional Program, Communication for Social Change, Public/Private Partnerships, and Global Philanthropy.

International AIDS Vaccine Initiative

Year Started:
1996

Annual Operating Budget:
\$59 million (2003)

Mission Focus:
Ensure the development of a safe, effective, accessible preventive HIV vaccine for use throughout the world.

Services Provided:
Advocacy; policy analysis; vaccine research & development including expertise in clinical trials, regulation, project management, manufacturing, process engineering, and research.

Funder/Nonprofit Relationship

Year Relationship Started:
Investigation 1993, incorporated 1996

Last year of funding:
2002

Total Dollars Granted to Nonprofit to Date:
\$8.98 million

Dialogue

The following excerpts are from a conversation held in October 2003 at the IAVI offices in New York City. Participants were:

- **Seth Berkley, President & CEO, IAVI;**
- **Charles Gardner, Associate Director for Health Equity, Rockefeller Foundation;**
- **Paul Klingenstein, General Partner, Aberdare Ventures;**
- **Kenneth Prewitt, former Senior Vice President, Rockefeller Foundation; and**
- **Alfred Wise, Community Wealth Ventures, moderator.**

Moderator: How did IAVI start out?

Berkley: We were at an interesting point in Rockefeller in that the leadership of health sciences was in transition. At that point there really wasn't interest in creating lots and lots of new programs. We were very active in AIDS in Africa and AIDS in general. We had become very quickly the largest foundation internationally funding AIDS work.

A group of people came to us and said the AIDS vaccine effort is dead. From my perspective, that was a great surprise because I assumed that the world was doing everything it could. We began a formal investigation at Rockefeller including a series of meetings to discuss AIDS vaccine efforts, culminating in a large meeting in the foundation's conference facility in Bellagio, Italy, to find out if there was a problem, which of course there was. Then a series of meetings followed to see if something could be done about it. That led to the birth of IAVI. Rockefeller played an incredibly important role at the beginning and later on as well in incubating it, in making my time available and using the Rockefeller facilities. Rockefeller did the communications work in-house as well as the initial infrastructure work and the staffing of the initial team. Right from the beginning, it was an idea that we should use Rockefeller to get this going because of its prestige, but we should very rapidly

try to move it outside of Rockefeller. We started to create a 501(c)(3) almost immediately even though it was sitting inside of Rockefeller.

Prewitt: I am going to start us in the 1920s. Before the expressions "high engagement" or "venture philanthropy" were invented, there was the Rockefeller Foundation, which was fundamentally an operating foundation. The distinction between an operating and grantmaking foundation did not even exist in the law at that stage. Fundamentally, the Rockefeller Foundation, especially in its public health and biomedical research area, was an operating foundation in the sense that people were on its staff and were paid to do that work. Then it got out of the operating foundation business by the 1950s. I run through that history because Rockefeller had the experience of not incubating things but running things, especially in the field of public health.

Therefore, when we get now to the '80s and the '90s, this history is part of the culture of the place, point one. Point two is the Rockefeller Foundation was the most important private foundation in the field of international health when the AIDS crisis hit in 1981 or 1982, before it was even recognized, before it was even called AIDS. The Rockefeller Foundation ignored it and ignored it because it was going to go away, ignored it because they did not understand it, ignored it because it was always working on something else. I got there in 1985. In fact, when Seth came and started talking about AIDS to his immediate supervisors, they did not want him to talk about AIDS. He worked on some other quite interesting things but not AIDS.

When IAVI came along in the Rockefeller culture, it had two kinds of barriers to cross. One was, can you incubate? Can you be quasi-operational for a period? And second was, should you be doing AIDS? The other thing going on in Rockefeller at that time—not just in health but particularly in health—was the question of whether this was a moment when private philanthropy should

form partnerships with the for-profit sector. There were various conversations going on. And for this one I credit Peter Goldmark, who was the president at the time. If he brought a single big thing to the foundation, it was that we could work with the for-profit sector. There was internal staff resistance and skepticism because that is not something that we had done. I certainly was one of those who did not quite figure out how in the world we would do that. Seth was much less reticent. He was much more comfortable with the idea that you might have to work out deals with for-profit firms, especially if you are going to get any kind of huge research-and-development investment going with something like an AIDS vaccine, even though we were not talking about an AIDS vaccine at that time.

I want to cover that background because the foundation is not a high-engagement organization. Therefore, it is not easy to explain why IAVI came along in a foundation that wasn't focusing on AIDS and didn't want to. We did a spinoff, like IAVI, of something called the Energy Foundation. It was again an incubation that was its own 501(c)(3). We started something in Africa: African Economic Research Consortium. The idea of starting to do things that we would ourselves be engaged in or have some governance responsibility for was growing to be part of the culture in this period.

Berkley: There was a very interesting split at this time in the officers in the foundation. There was a group of officers who were excited by this idea and felt in fact that we should be operating, and there was another group that felt we shouldn't be. The lawyers would remind us that we were not an operating foundation. So there was a real clash of culture.

Klingenstein: When I got to the foundation in 1997, I had been working for 15 years as a venture capitalist in biotechnologies and medical technologies. I was involved serendipitously. Peter Goldmark had heard of my background and said you need to help us do this. He had a very compelling but vague notion

On Leadership

“You have somebody pressing against these kinds of institutional barriers and pressing very hard with whatever avenues were available at the time. ...I take zero credit for any of the conceptualization but had a lot of confidence in the individual and therefore was willing to go out on a limb on his behalf.”

—Prewitt

“At the end of the day, we decided that a committed entrepreneur who understands the challenges is more likely to succeed than somebody who has just the right pedigree. ... We finally knew what the best candidates looked like, and Seth looked better than anyone else.”

—Klingenstein

“The kinds of persons who can drive these things have to be independent spirits. They make deals and go out on a limb to make these things happen... What you are describing, of course, is an entrepreneur inside.”

—Prewitt

about what could be accomplished through the interaction of the private sector and the philanthropic foundations. I don't think anybody was very clear. There were a number of statements being made saying there are companies out there that make vaccines, this is a huge public health problem and something should be done.

At the time, I was on the board of a vaccine company, and I had a lot to do with several of the larger companies as co-investors on a vaccine project. We had to go through this period of learning a second language because I did not understand how these were going to come together. There were many others who didn't understand that this was not the way project resources were allocated.

This was not a market failure. There are four or five major actors in the vaccine business, and they were minimally engaged, or they were cosmetically engaged, but they weren't fully committed to HIV vaccine discovery projects. The question is why weren't they. One of the first things I did with Seth was to go talk with heads of R and D to try and get them to be very straightforward about why they weren't. They admitted that they weren't, and it was perfectly rational to say this is a very challenging discovery project and it has unprecedented risk. We are not clear what the pricing will look like. We don't know what the ability to pay will be and the affected populations. That helped to define the problem for both sides and for me, too.

Moderator: Let's go back a step to talk about the culture at Rockefeller and how IAVI was launched from the notion that AIDS is something that should be addressed.

Prewitt: In an odd way, one of the reasons to go the 501(c)(3) route was to make sure IAVI would have an identity and have an institutional home even though it was totally internal money at the beginning. It was partly to protect the idea and the person who had the idea. There is no way that this could have ever come out of the Rockefeller Foundation without Seth. He needed support and he needed this, that, and the other, but it wasn't as if the Rockefeller Foundation board or the senior management was sitting around saying wouldn't it be marvelous to do an AIDS vaccine and who would we hand this portfolio to. Just the opposite. You have somebody pressing against these kinds of institutional barriers and pressing very hard with whatever avenues were available at the time. I had a lot of confidence in Seth. I did not quite understand the idea itself. I take zero credit for any of the conceptualization but had a lot of confidence in the individual and therefore was willing to go out on a limb on his behalf.

At that time, there was an effort to get rid of Seth. It is mushy because these things are always mushy at the edges. Seth was not being treated in my judg-

ment with the kind of institutional respect that he needed. How it happened is so idiosyncratic. It wasn't the foundation deciding it was time to be a high-engagement philanthropy. It wasn't the foundation deciding to do an AIDS vaccine, and it wasn't the foundation trying to decide any of these kinds of things. It was a person who was being pushed to the edge, and his major supporter inside was also going to leave. That then created for us the only mechanism that seemed to be available to keep both the person and the idea alive.

Berkley: Let me disagree with a number of those points. They are all right, but timing is critical here. It is true that at the end of my tenure at the foundation, they wanted to get rid of me for a complicated set of reasons, not the least of which was that a lot of the things I was doing were very high profile. At this point, when IAVI was being initiated, the administration was nervous to take something like this forward. There was a belief that this was the type of thing that had to happen, but the questions were how to implement it and how much risk to take. The conversation went endlessly back and forth. The issue of an AIDS vaccine was clearly a problem, though. Nobody argued it. The board was very excited about it, but the president said: “My God, how big should this be and how much out front are we getting into this? I pushed, pushed, pushed to get this type of thing here, but maybe this is now going too fast.” That was happening in multiple fields. The same thing happened in the environmental field where they created a new initiative that was pushing the envelope. It was making all kinds of noise, and all of a sudden it was, “Wait—my God, this is too big. It is doing too much,” and there was an attempt to pull back in. There was an attempt to pull IAVI back in.

Klingenstein: I don't understand the contrary thinking. This is what these institutions are supposed to be doing.

Berkley: That is what all of us believe, and the reason it is important is that there are now 70 health-based public/private initiatives of which IAVI was the first. Rockefeller has done maybe five to

ten of them. This genre has become a big part of what Rockefeller has done. Then Gates, which becomes the largest funder of all of this, makes public/private initiatives core to what it is doing.

Prewitt: My history only runs up to 1995, so I only hear about things that happened between 1995 and 1997. One more comment going back to the 1920s: The Rockefeller Foundation's resources were a match for its ambitions in the 1920s in public health. The Rockefeller and Ford foundations' resources were a match for its ambitions in agriculture in the 1950s. By the time we get to the 1980s and the 1990s, the foundations' resources no longer matched their ambitions. Today, the only foundation in the country whose resources match their ambitions is Gates. Nobody else is even close. So a general purpose foundation working in lots of sectors by definition does not have a resource base to match its ambition. It has a vocabulary to match it but not a resource base. The big partner in the 1970s and the 1980s was the federal government. When the federal government is no longer the partner, you have to figure out who has money to leverage. Goldmark is right about that point, but he is fighting a culture in which the staff doesn't even quite believe that we don't have enough resources.

Berkley: So that automatically takes you to the private sector.

Prewitt: That is right. In effect, there was no place else to go.

Berkley: In the 1940s there was no National Institutes of Health, for example, in health expenditures. So Rockefeller, which had health as a major part of its portfolio, was the largest international health funder. Now you have NIH efforts and the National Science Foundation as \$27 billion efforts, plus research foundations around the world. Rockefeller's health program at that time was somewhere around \$12 million to \$14 million. Yet we were talking exactly the same way we were in the 1920s: We are going to eradicate this disease.

IAVI was a big idea when it was launched. We tried to get money quickly from other sources, and the first source we went to was another foundation that did no health, did no AIDS, and did no international work. They gave us \$3 million, and then the next foundation gave us \$4 million. That is when we took off.

Moderator: So you designed a separate entity to get to the scale that you envisioned and also to shield Rockefeller from some of the risk associated with the project?

Berkley: Yes and no. I think there was certainly discomfort in these big, visible things being run at a program level. The president continued to support it but with this reluctance of, what am I supporting and how much is it out of my control. We set up a 501(c)(3) that theoretically the president of Rockefeller had nothing to do with. I was the acting CEO and the chair of the board at the same time, and

we had three independent high-prestige board members. It was an independent entity that Rockefeller was not controlling. And that was really the nervousness that was going on internally.

Prewitt: The kinds of persons who can drive these things have to be independent spirits. They make deals and go out on a limb to make these things happen. And I'm not just talking about IAVI here. They get a reputation inside of the foundation that they are a little arrogant or a little pushy. Those kinds of things were being said about Seth at the time. They were saying that he was not a team player.

So in all honesty, part of the risk was that Rockefeller was creating IAVI and then letting go of some control. There is a structural problem inside those kinds of foundations when these things are unfolding. It is analogous to what happens in the corporate world when things get spun off. What you are describing, of course, is an entrepreneur inside.

Moderator: So how did the idea even come about?

Berkley: The idea came to us. Some people came to us and said the AIDS vaccine effort is dead, and I did not believe it. The people who came to us were some advocates and some people in the private sector and some internationalists. We at Rockefeller had the freedom to go to whatever meetings we wanted to. So I had freedom to investigate it so I could make the case. I went to a series

On the Relationship

“Rockefeller played an incredibly important role at the beginning and later on as well in incubating it, in making my time available and using the Rockefeller facilities. Rockefeller did the communications work in-house as well as the initial infrastructure work and the staffing of the initial team.”

—Berkley

“There was certainly discomfort in these big, visible things being run at a program level. ...It was an independent entity that Rockefeller was not controlling. And that was really the nervousness that was going on internally.”

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“We wanted to hire this very prominent person who was head of the NIH AIDS vaccine effort ... We set up a deal that Rockefeller would guarantee her salary.... We used Rockefeller in many, many different ways to open doors, but at the same time, it was somewhat of a cultural clash.”

—Berkley

“Had we just started as an outside organization, we would have had zero chance of doing this. There was a level of credibility that came from being part of the Rockefeller Foundation.”

—Berkley

of early meetings and then began to convene our own meetings, building the case for doing something about the AIDS problem. That process required support internally. The president realized this was a big idea. He called his board members and other people, and they thought it was a good idea as well.

When they got involved, it was much more in a bureaucratic way, and all I was trying to do was to figure out how to move this as fast as possible. That is where Paul became very important later on because he was from a completely opposite school than those in the foundation who were saying stay internal. His whole life was backing entrepreneurs, and he became a mentor to me. We had conversations in the private sector thinking big numbers and big leverage—things that we had begun to talk about at the foundation but which were not the culture of the place at the time. The person who was defending it on the board turned out to be Peggy Dulany [Rockefeller], who gets very excited by this idea. She was looking at trying to leverage other foundations, and there was pretty good support. The decision was made to spin off IAVI and for me to go work with it, and that is what I did.

Gardner: Were you raising the \$3 million and \$4 million while IAVI was still physically within the foundation?

Berkley: Yes. It sat within the foundation for a year and a half. We hired the first employee. At this point, I had not gotten a grant from Rockefeller. We used operating funds from the division. We wanted to hire this very prominent person who was head of the NIH AIDS vaccine effort and who understood that the world wasn't getting it right. To do that, we had to create a guarantee for her in case the whole thing fell flat on its face. We set up a deal that Rockefeller would guarantee her salary, a substantial salary, if this whole thing collapsed. We used Rockefeller in many, many different ways to open doors, but at the same time, it was somewhat of a cultural clash.

Moderator: When you were setting up the 501(c)(3), did you envision yourself leading it?

Berkley: No, we began a search for a CEO. I felt that it was critical that the person leading it come from industry, someone who had managed the development of vaccines or who had many vaccine patents under his or her belt. So that is what we were looking for. We offered the job to two industry leaders, both commercial guys who knew how to run companies and had run vaccine companies. Both ended up being uncomfortable with the fundraising and the political part of the job. In 1997, the board came to me and said, instead of you just providing technical assistance, why don't you become the CEO?

Klingenstein: We wanted somebody who had run a large program, who was technically sophisticated, and who understood vaccine discovery and would understand clinical development. Then we had Seth who was running the process and who was a committed entrepreneur. But at the end of the day, we decided that a committed entrepreneur who understands the challenges is more likely to succeed than somebody who has just the right pedigree. It was Seth's decision and the board's decision for him to step into this operating role. We finally knew what the best candidates looked like, and Seth looked better than anyone else.

Moderator: How did Rockefeller use its leverage to help get you started?

Berkley: The most important issues were getting in the door and the level of credibility. We started with \$100,000 and one employee and were going to influence the world on a topic that was so expensive and so big. This was, to most people, patently ridiculous. Had we just started as an outside organization, we would have had zero chance of doing this. There was a level of credibility that came from being part of the Rockefeller Foundation. As Ken said, this was the health place up until that time. There was no Gates. The reason people came to us about this problem was it was the place that could make miracles happen. The fact that we were in Rockefeller and had that credibility and support made all the difference in the world.

Prewitt: The Rockefeller Foundation had not stepped into the AIDS effort during 1980 to 1983 when it should have or in 1985 and 1986 when it should have. It simply had ignored this, so people are saying out there that they finally recognize this is a big scourge in the developing world, and we have to do something about it. This is, after all, the foundation that had been very active in significantly reducing the fertility rate worldwide. There were enormous accomplishments in the world—and not just through the Rockefeller Foundation—in family planning and in the population field. Then along came what appeared to be an equally large global crisis, and people could not imagine that Rockefeller sooner or later wouldn't finally wake up and do something about it.

Moderator: Did the Rockefeller Foundation come out directly and say we are going to continue to support IAVI?

Berkley: IAVI went from being an underground effort to being the lead in the annual report for multiple years and being the speaking point of the leadership of the foundation.

Moderator: Back in the beginning, did you have a business plan?

Berkley: In retrospect, we probably should have done a standard business plan, but, at that point, that was somewhat foreign to me. Instead, we did a series of scientific plans. We did five meetings to address this topic. We did the original Bellagio meeting, which laid out what the needs were.

We then went to the science meeting where we laid out and looked at the global science plan with a group of people who were both in the field of HIV research and outside. This is what Rockefeller does so well. We got all the best people to come together, and they said they thought it was doable but that the world was currently dealing with vaccine development in an ineffective way.

There were three other meetings. One was an intellectual property meeting in which we brought lawyers together. One was structure and finance: Should it be a

for-profit or a not-for-profit, or should it be a consortium of industry? Last was a series of meetings and consultations with people in the AIDS community. The AIDS community was against this. The rumor mill was that Rockefeller was going to take money away from prevention and treatment research and put it into vaccines. That is one of the reasons we started out looking for foundations that were not already involved in AIDS and HIV. Remember I said the first foundation that gave us support was one that did no AIDS, no health, and no international projects. We said to people in the AIDS community that we were not going to rob Peter to pay Paul. We were going to try to bring in new money. In fact when Gates came in, it was completely new money.

Moderator: Talk about the funding perspective of what you needed to get to take it to the scale you wanted.

Berkley: It was scary when I took over the leadership of IAVI. Ken Prewitt was president of the Social Science Research Council, and he sublet some space to me. We had virtually no money. I am not even sure we had a grant from Rockefeller yet, although there was the promise of some support coming from them. We had gotten this \$3 million grant, and we had gotten some money from a group of mothers who were selling bracelets to support this, and that was it. It was about a month later that we then received a \$4 million grant from the Starr Foundation, which was an atypical funder as they didn't fund international AIDS research. After that, things rapidly fell into place, and we have been able to grow between 100 and 150 percent per year since the start of IAVI.

Moderator: How critical was the more than \$8 million that Rockefeller gave you?

Berkley: It was incredibly important. It was a substantial proportion of the operating budget in the early years. The vision was to create a global funding effort from the beginning. As a result, I was surprised that internally at Rockefeller the recent conclusion was because we were so successful at fundraising, we didn't need Rockefeller funds any more.

That to me was exactly the wrong conclusion. The right conclusion would have been that this is one of the most important things we have launched; we are delighted that other people are coming in, but we need to keep a critical investment and critical involvement because we will learn from it, we will influence it, it will continue to be important, and we need to have a link to it.

Moderator: Did Rockefeller initially take a board seat?

Berkley: We made a decision early on that there should be no funders on the board. We decided to make a completely independent board composed of people with expertise in these areas.

Moderator: You mentioned that you were tracking against earlier projections. What kind of outcomes were you looking to achieve, and how do you track them?

Berkley: Part of it is fundraising as a goal. Obviously, fundraising in and of itself is not important, but it is to have adequate funds to support a substantial vaccine development program that grows in the way that it needs to grow. There is a logic to this in that if you start working on vaccines it initially is relatively cheap. As you begin to move into clinical testing and into manufacturing with these same products, it rapidly gets quite expensive. One could, therefore, measure our early growth based on fundraising and what we said we were going to raise, and we exceeded that. One could measure it on the detailed outcomes we listed for our first government donor, the British government, all of which we exceeded.

Moderator: What types of outcomes?

Berkley: How many vaccine products we were going to develop. We were going to do clinical trials, and we were going to go to trials within a certain period of time. We were going to build political leadership across countries.

Prewitt: One other footnote on Rockefeller. During this period—say 1993, 1994, 1995, and 1996—Rockefeller was out front on two or three other technical

On Leverage

“The other thing going on in Rockefeller at that time... was the question of whether this was a moment when private philanthropy should form partnerships with the for-profit sector... [Seth] was much more comfortable with the idea that you might have to work out deals with for-profit firms, especially if you are going to get any kind of huge research-and-development investment going with something like an AIDS vaccine...”

—Prewitt

“When the federal government is no longer the partner, you have to figure out who has money to leverage.”

—Prewitt

“So that automatically takes you to the private sector.”

—Berkley

fields, two in population and one in agriculture. The Rockefeller Foundation was willing to invest in major scientific enterprises and accepted the fact that technical failures would sometimes occur.

Alternatively, Norplant was primarily being done through the Population Council, but the Rockefeller Foundation was active in its development. Norplant was a technical success, but it wasn't quite a political or moral success, and there was a lot of nervousness inside the foundation about coming across with a certain type of arrogance, appearing as if they believed if you just get the technology right, everything else will fall into place. In the foundation, people are aware that sooner or later you have to do field trials for an AIDS vaccine. There was some anxiety about how well we would handle the political and moral culture. We were right up against a quite unhappy experience with Norplant. We took the board to a health clinic in Indonesia and watched women get it implanted and talked to them about taking it out. They did not

know it could be withdrawn. Clearly they thought, we are in a police state and the police state is using this to control population. I mention that because that is part of the conversation that is going on that also explains some of Rockefeller Foundation's trepidation.

Moderator: So looking forward, it sounds like you clearly have the foundation's long-term commitment?

Berkley: Well, no. The foundation's resources dropped off, and it made the decision not to give IAVI funding for this year. The message I got was not that it wasn't fully supportive of what we were doing and not that it did not want to help us, but what difference did Rockefeller's resources make since IAVI was being so successful.

In my opinion, if IAVI were to fail, it would take down with it the model and a lot of other things that are going to have an even harder time moving forward. If IAVI succeeds, it then becomes an important lesson. It may not be the right model for other things, but it is not necessarily irrelevant to other work that is going on. I actually think it is a very, very important thing for Rockefeller to be engaged in, and so I am continuing to make a case for that.

Gardner: This is interesting as all the steps you have described in setting up IAVI, with the exception that it was actually within the foundation, were repeated with four other organizations that had a portfolio approach to developing products.

Moderator: Do you think Rockefeller saw IAVI as a successful model that should be replicated as a way to forward ideas without assuming quite the risk?

Gardner: I'm coming at this from the outside since I've just joined the foundation, so to me it seems obvious that, yes, they would see IAVI as a clear model and a great success story; and the foundation's literature still trumpets IAVI as a big success. But there is a disconnect. When I talk to Ariel Pablos-Mendez, who is the acting director of the health office at Rockefeller, and he tells me what was behind his pushing this model with four other organizations—the Medicines for Malaria Venture, the Global Alliance for TB Drug Development, the International Partnership for Microbicides, and The Pediatric Dengue Vaccine Initiative—is his experience with watching the creation of the Medicines for the Malaria Venture that inspired his support of the model. Now it sounds like Rockefeller put some money into the Malaria Venture project and pushed them to have a business plan—probably based on the IAVI experience.

Because Ariel didn't overlap with Ken or Seth and he didn't experience the birth of IAVI and its nurturing within the foundation to have gained a lot of direct experience, he probably got indirect experience from people who were involved in it.

Berkley: Right. There has always been a history at the Rockefeller Foundation of learning from previous officers. I got all these books when I came in, history books, even a book on good foundation practices and how a good foundation

officer operates. That has somewhat fallen apart, and at least my experience has been that the recent generations of people come in and they're not learning enough about how things were done in the past and do not build upon the backbone. Now maybe that's a little unfair. If you talk to the president, he understands IAVI. Early on when these other initiatives happened, I had conversations with each one of the CEOs of the new organizations. We would share materials. We would go to the same meetings, and there was no question that there was a shared learning environment, but it wasn't a direct Rockefeller transition of everything learned from previous generations to new generations of officers and then using that knowledge to drive things forward.

Gardner: The success of these organizations is driving an interesting cultural shift within the foundation. The current president is saying, "This tier in the public/private arena is an area where the foundation might have a niche where it could expand. Rockefeller could look at the applications of public/private partnerships in other areas like community development and micro-lending or micro-insurance. So where else could we learn from the private sector? What other things have been honed to perfection in the cutthroat world of the private sector that we could apply to a public good?" So this is a new story, I think, that IAVI helped to start.

Moderator: How would you describe the economic model of a public/private partnership?

On Outcomes

"The clearest, biggest challenge is the science...Once we have a product that works, even if it only works 50 percent of the time, the development afterward is quite easy...But until you have that, the entry costs are enormous. It's \$150, \$200, \$250 million because you have to take a product from its inception all the way into efficacy testing to show that it works..." —**Berkley**

"One of the issues is, how does a funder take having no hits, even though you may be making enormous progress. The answer is to measure interim success

such as getting products tested and moving them through as well as continuing to build the political sphere for this." —**Berkley**

"But the product failures have got to imbed in them a lesson for moving forward about the probabilities of product success...There may not be a profit. There may not be a vaccine...So it seems to me IAVI's strategy is to have its failures always be forward steps. They have to learn from their failures..." —**Prewitt**

Berkley: Initially, the idea was that there's a research engine called the public sector that produces basic science. There are, at the end, companies taking products and driving them all the way through. The gap that we looked at—this was the “Aha” at the Bellagio meeting—was taking products from the bench and through the pipeline enough that companies would say, “These are exciting enough or promising enough that we'll now pick them up and take them forward.” There just isn't a compelling enough market, and the science challenges are tough enough that we are not going to invest large amounts of shareholder capital to move them through high-risk early development. So it's that gap that we have to fill. All we then have to do is take a bunch of products, scour the world for the best ideas, pick ones that are different than the ones already going, take them through enough clinical development to show that they're promising or not, and then industry will pick up the promising ones and move them forward. That's the economic model, and we've set in it provisions that stipulate that if it happens, the company should be able to sell it in their primary market for whatever the market will bear; but they need to make it available in the developing world under conditions that would allow access and make sure that the developing world isn't bearing the brunt of this cost since it's public funds.

Now what's changing about this is the assumption that if you just take a promising product far enough, the companies will pick it up. It's not clear that that's true. Even for the companies that now have programs, it's not clear how committed they are to their programs given the tough economic and political environment. So it's not clear that even if we have the eureka product that a company is always going to step forward and take it all the way. The question at hand is, have we shifted from maybe only having to take it to phase one to maybe having to take it to phase two or phase three and prove it works. Might we even have to create a new model that says we're going to transfer it to a developing country to manufacture, or are we going to create a production facility or anything

else in the interim? We don't know yet.

Gardner: Companies are nervous about vaccines, and they're very, very nervous about HIV vaccines.

Berkley: So the model then is to pick ideas, and those are usually from academia or biotech because big companies aren't taking the risk of a large portfolio. But you have good ideas out there in the biotech industry that are not getting funding because venture capitalists say: “Vaccines are bad. AIDS vaccines are horrible. Run the other way.” They can get money out of the public sector research mechanisms like NIH, but that money takes a long time to come. It doesn't come with any of the expertise, like clinical trials expertise or regulatory expertise or the other things that IAVI has. We bring flexible money, quick money, and we bring the expertise that goes with it. At the same time we're also trying to build a political climate that makes it acceptable or even “noble” to work on an AIDS vaccine.

Moderator: What have been the biggest challenges since launching IAVI?

Berkley: The clearest, biggest challenge is the science because we can take things up to a certain point in monkeys, but we don't know if the monkey model is the same as the human model. We're going to have to take things all the way through in humans to prove the model, that the monkey model is right. Once we have a product that works, even if it only works 50 percent of the time, the development afterward is quite easy. Not easy, but it's easier. But until you have that, the entry costs are enormous. It's \$150, \$200, \$250 million because you have to take a product from its inception all the way into efficacy testing to show that it works, so then you can see that you have the predictive working model. So science is the number one problem. Then the fundraising issue is a hard one because how do you sustain this over time, realizing that this is a marathon, not a sprint, a 20- to 30-year effort? Again, I can't speak for Rockefeller, but if the growth continued and Rockefeller was continuing to have pots and pots of money, I don't

think there's any question they would not have dropped IAVI. They might have lowered their commitment, but I think at the end what we're going to see is as money gets tight people might say, “Well, you know, we did AIDS vaccines a while ago,” and not stick with it. This is despite the fact that this epidemic has already infected or killed over 70 million people, and it is the worst infectious disease epidemic since the 14th century. And, even though the world has just coughed up a commitment of \$22 billion to deal with AIDS, none of that is directed at vaccines. It's all treatment-related, and so there's still as much of a crying need to support this global public good as there was in the past.

Moderator: What are the markers you need to hit to demonstrate to other funders that you're moving toward making an impact?

Berkley: You want to have a working vaccine, but, given this field, you know that you're going to have a lot of losses. So one of the issues is, how does a funder take having no hits, even though you may be making enormous progress. The answer is to measure interim success such as getting products tested and moving them through as well as continuing to build the political sphere for this.

Prewitt: But the product failures have got to imbed in them a lesson for moving forward about the probabilities of product success. These vaccine approaches have to be plausible. There's an assumption that somehow an AIDS vaccine will just happen, and then when the bottom drops out, the whole field goes dead because these promises and expectations fail to materialize.

There may not be a profit. There may not be a vaccine. When will you know that? You'll never know it. So it seems to me IAVI's strategy is to have its failures always be forward steps. They have to learn from their failures. Otherwise the funding will just dry up.

Berkley: The other interesting thing is that when the virus was identified 20 years ago, the activists basically said to

On Other Funders

“The Rockefeller Foundation’s resources were a match for its ambitions in the 1920s in public health. The Rockefeller and Ford foundations’ resources were a match for their ambitions in agriculture in the 1950s. By the time we get to the 1980s and the 1990s, the foundations’ resources no longer matched their ambitions. Today, the only foundation in the country whose resources match their ambitions is Gates. Nobody else is even close.” —Prewitt

“My worry is that Rockefeller is going to give up the health space, despite the fact that it has the unbelievable history, the convening power, the leadership...I think there’s a danger that people say, ‘Gates is there. They’ve got the franchise now, it’s time for everybody else to go home because they’re really big and they really can make a difference...’” —Berkley

“If Rockefeller gets out, Gates is the only big foundation doing health. There used to be MacArthur. There used to be McConnell Clark. There used to be Carnegie. But those are all out of health.” —Berkley

the science community, “We need treatment.” The science community said, “We don’t know how to make a treatment for viruses.” The activists said, “We don’t care,” and they throw money at it. So all of a sudden there are all these treatments. We now have treatment. Eureka. We’re going to cure everybody; the virus is going to be gone. But lo and behold, it doesn’t end the epidemic. The treatment keeps people alive, but the epidemic continues to spread. In the US there are 40,000 new infections a year and 15,000 new infections a day worldwide.

What happens, though, is all of a sudden we discover international AIDS. I went to a meeting at the White House at the end of the Clinton administration with all these high-level Cabinet people and they went around the table and said, “AIDS is killing people in Africa. It’s a thing of biblical proportions,” and I’m waiting for the punch line, but that was what the meeting was about. They had discovered that there was AIDS in Africa in 2000, after 20 million people had died. So all of a sudden there was a discovery and then there was this huge movement for treatment. The activists are throwing things out there: “If we just treat these people, the world is going to be all right.” But we know that it doesn’t end the epidemic and eventually viruses get resistant or people can’t tolerate the treatment. So now we have this \$22 billion huge effort going on and that also can push the vaccine effort out because they say, “Well, nobody’s interested anymore.”

I just came from the AIDS in Africa meeting and 12 people spoke on the opening day panel. They did not mention the word condom. They did not mention the word vaccine. It was about treatment. That was it, and so the world is missing the boat. From my perspective, what we need is the type of leadership that says, yes, treatment is important but don’t forget that we’re trying to end this epidemic. This is a long-term goal. Getting people to stick to that, even foundations, is very hard. You know, a new foundation board comes in and is interested in other things.

Moderator: Charles, you talked about Rockefeller’s culture changing.

Gardner: The experience with both the agricultural work that the foundation has done for decades and with IAVI and these other four entities that they’ve created over the past few years is very positive and very visible. It’s the most visible thing that comes to people’s heads when they think about the foundation now.

Moderator: How is that getting into the Rockefeller culture? Are you out looking for the right ideas? Do you have ideas where you’re looking for entrepreneurs?

Gardner: There are different parts to this. The foundation is big and it’s doing work in community development and culture and other things I don’t even know about. So I can only speak to the health side. The health side, which is one of four big themes, gets only \$20 million a year. We’re going through our own internal evaluation and an external evaluation. We’re doing a lot of soul searching about where we should go next. So there’s a constant tension within the foundation between the implementation side of things and the innovation side of things. What’s really driven this in the foundation is that they’re looking at innovation that will improve implementation. There’s no vaccine, so any vaccine, even if it doesn’t get to the poorest of the poor is better than no vaccine. But you still have to think about how to get it to the poorest of the poor.

For example, there’s a huge problem with implementation of the DOTS treatment, or Directly Observed Treatment, which is the standard TB treatment, because it takes so damn long. You have to have daily drug dosage and people fall off. Without close supervision, up to half do not complete treatment, fostering the development of drug resistance. If you had a shorter course or time period to take the drugs, you would reach a lot more people with the same cost. So you improve implementation literally by innovating. Then there are bigger issues of comparative advantage, and Gates really looms over the whole arena now, so it’s a mixed blessing.

Berkley: That’s a really big issue. My worry is that Rockefeller is going to give up the health space, despite the fact that it has the unbelievable history, the convening power, the leadership and can be potentially very entrepreneurial. There was a short period where Gates had none of that, and so Rockefeller could have been the kind of real leader and Gates could have been the financier. Of course, Gates now has a very strong staff. I think there’s a danger that people say, “Gates is there. They’ve got the franchise now, it’s time for everybody else to go home because they’re really big and they really can make a difference,” and I think that’s dangerous.

Moderator: Would it be a secondary win to help focus Rockefeller on entrepreneurs like yourself?

Prewitt: When you're talking about venture financing, high-engagement philanthropy, or whatever you want to call it, the conversation around products is fundamentally different than the conversation around everything else—getting rid of poverty, or training the next generation, or doing arts and culture, whatever. Products are different and the foundation world hasn't understood that they're fundamentally different than getting the right public policies. What's interesting to me is not that Rockefeller is looking at public/private partnerships but they're looking at products again.

Berkley: The problem with some products, if you look at the venture capital timeline for AIDS vaccines, is it's probably too long. It's not that anybody argues that someday if you have an AIDS vaccine, you're going to make a hell of a lot of money. Everybody agrees with that. The issue is that it's not going to be in the timeline that's good for venture capitalists. Whereas a place like Rockefeller can commit for 20 years, it does not do that well, and that's the point. So here's IAVI, six or eight years out. Rockefeller Foundation doesn't know whether it's going to support it or not. Rice biotechnology is 15 to 18 years out. They get nervous. INCLEN (the International Clinical

Epidemiology Network) is 12 years out. They get nervous. Now, you can argue that those programs don't deserve support anymore; they're stale or whatever. But there is another argument that says that one way Rockefeller should do it is to just stick with things long enough. There are some very good examples where Rockefeller has failed because they got out too quickly. Boards change and people change. That's one of the critical issues for venture philanthropy in a generation that has the time horizon of a nanosecond. Will venture philanthropy take those longer horizons? For a vaccine product development initiative, it's got to be 15 years, minimum.

Prewitt: So much of these decisions within a foundation are driven by personalities rather than just the idea, and people turn over.

Berkley: The other thing that happens is the board turns over. So if you go back to who on the board was there when IAVI began, who really understood the arguments for it and why it was important, they might still stick with it, but for new board members there's some sense that it's done now.

Moderator: Do you have other funders that have a longer-term horizon?

Berkley: I think Gates ultimately has a pretty long time horizon but it's untested;

it's completely new. It's a family foundation, and they've spent a lot of money and they don't have a track record yet. So how is that going to play out? What's really going to be seen as a success or not and how that's going to change the way they invest is not really clear. But certainly they are talking about that long-term view.

Prewitt: The Gates Foundation understands the development of products. It's the only big product foundation. And product is a thing where if you do it right, you get it into every school, you get it into every arm, you get it into everything, and something is really going to change. But it's the only big foundation in the country that's a product foundation.

And venture capitalism comes out of the product world. It comes out of a world in which you made something and sold it, and lo and behold somebody made a lot of money. Then you have a success.

Berkley: The other thing is that most of our funding now comes not from foundations. Seventy to 80 percent of this year's funding comes from government. Talk about fickleness. I mean governments can go on forever, but governments also change on a dime based on politics. Our budget now is about \$60 million a year, and about 80 percent of that comes from eight different governments. That was a transition that

On the Impact of the Model

“There are now 70 health-based public/private initiatives of which IAVI was the first. Rockefeller has done maybe five to ten of them. This genre has become a big part of what Rockefeller has done.”

—Berkley

“All the steps you have described in setting up IAVI, with the exception that it was actually within the foundation, were repeated with four other organizations that had a portfolio approach to developing products.”

—Gardner

“The success of these organizations is driving an interesting cultural shift within the foundation. The current president is saying, ‘This tier in the public/private arena is an area where the foundation might have a

niche where it could expand. Rockefeller could look at the applications of public/private partnerships in other areas like community development and micro-lending or micro-insurance.’... this is a new story, I think, that IAVI helped to start.”

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“The conversation around products is fundamentally different than the conversation around everything else—getting rid of poverty, or training the next generation, or doing arts and culture... Products are different and the foundation world hasn't understood that they're fundamentally different than getting the right public policies. What's interesting to me is not that Rockefeller is looking at public/private partnerships but they're looking at products again.”

—Prewitt

we had planned originally because we asked, how much money is there in philanthropy. There's a lot, but how many foundations are interested in product development or science or international health? The answer is very few and it's very hard to get new ones engaged. If Rockefeller gets out, Gates is the only big foundation doing health. There used to be MacArthur. There used to be McConnell Clark. There used to be Carnegie. But those are all out of health.

Moderator: Once you have a product, is that the end of IAVI?

Berkley: We used to end each board meeting by saying, "Is it time to go out of business?" We stopped doing that because it's a long time horizon. Our plan is not to morph into something else; it is to be AIDS vaccines. But our success is not a product. Our success is an AIDS vaccine that is accessible and used by people who need it. IAVI is probably not going to get

into the distribution business, but it will probably morph into something that will then move the product to an organization. It would be logical to do that, whether it be a global fund or a UNICEF or a whatever. That's the mission and that is the plan.

The Participants

Seth Berkley, president, chief executive officer, and founder of IAVI, is a medical doctor specializing in infectious disease epidemiology and international health. Prior to founding IAVI, Dr. Berkley was associate director of the Health Sciences Division at the Rockefeller Foundation. He is adjunct professor of public health at Columbia University and adjunct professor of medicine at Brown University and has held academic appointments at Harvard University, New York University, and Makerere University in Uganda.

Previously, Dr. Berkley worked for the Center for Infectious Diseases of the US Centers for Disease Control and Prevention, the Massachusetts Department of Public Health, and the Carter Center, where he was assigned as an epidemiologist at the Ministry of Health in Uganda.

Dr. Berkley is currently active as a board member of Village Reach, the Alan Guttmacher Institute, Canadian Network for Vaccines and Immunotherapeutics, Oxfam America, and the American Bureau for Medical Advancement in China. He also participates in steering committees for the HIV Vaccine Trials Network at the US National Institutes of Health, the Horizons AIDS Prevention Project, Family Health International, and the New York Academy of Sciences. Dr. Berkley is a fellow at the Infectious Disease Society of America, the American College of Physicians, and the Massachusetts Medical Society. He is a founding member of the Network of AIDS Researchers of Eastern and Southern Africa and a member of the International Epidemiology Association.

Dr. Berkley received his undergraduate and medical degrees from Brown University and was trained in internal medicine at Harvard University.

Charles Gardner is the associate director for health equity at the Rockefeller Foundation, where he manages the Harnessing the New Sciences (HNS) program. HNS has assisted in the creation of a number of public/private partnerships to develop drugs and vaccines against neglected diseases of the poor.

From 1998 to 2002, Dr. Gardner served as the US Department of Health and Human Services' Regional Representative to South Asia, with the title of Science Attaché at the US Embassy, New Delhi. From 1995 to 1998, Dr. Gardner was the program officer for Africa, the Middle East, and South Asia at the Fogarty International Center (FIC) of the US National Institutes of Health. Before that, Dr. Gardner was a science policy analyst with the FIC's Office of International Science Policy and Analysis and an assistant professor at Howard University.

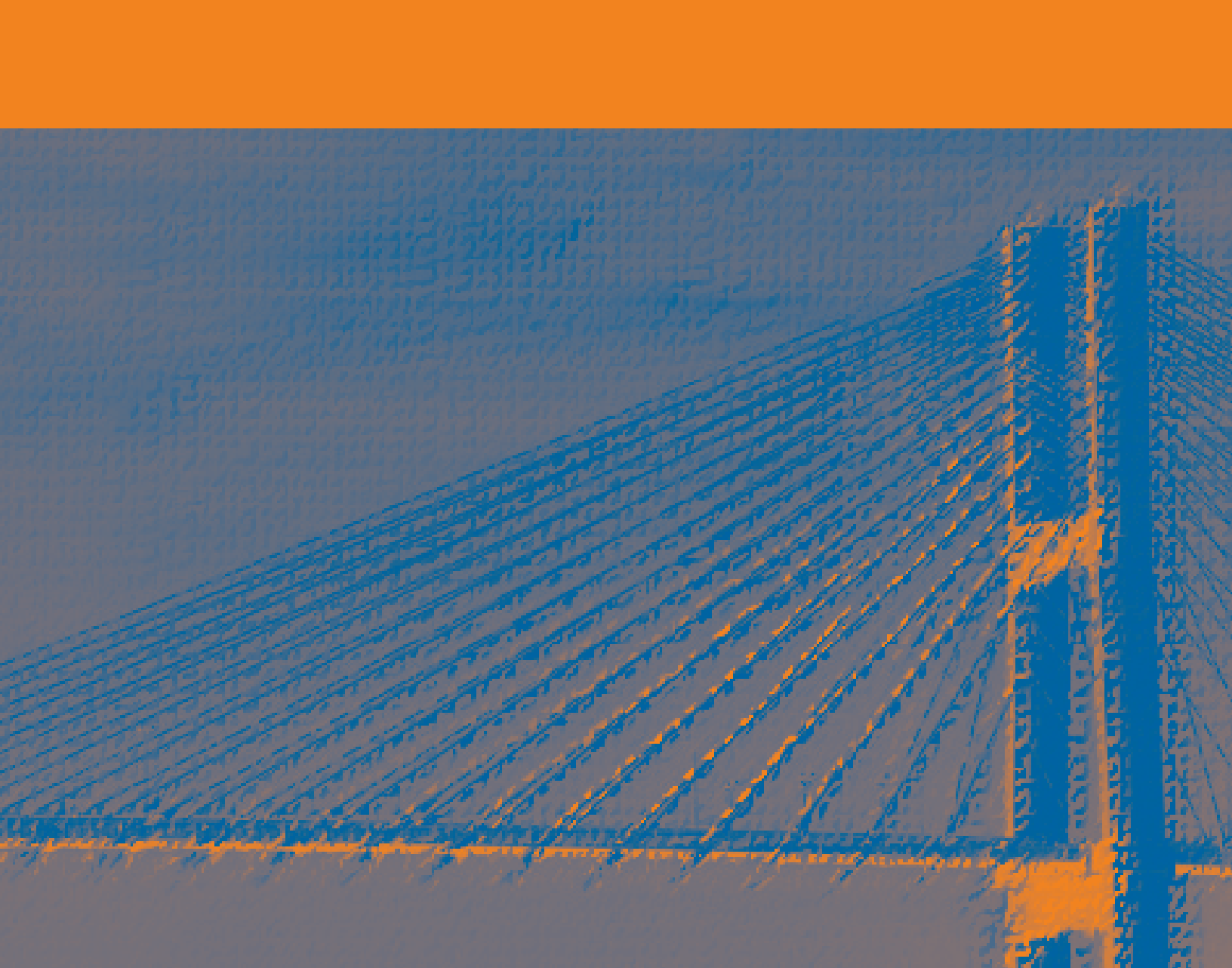
Dr. Gardner began his career in science policy with a Congressional Science Fellowship from the American Society for Microbiology. During his fellowship year (1991-1992), he served as a subcommittee staff member of the Government Operations Committee in the US House of Representatives. During 1992 and 1993, Dr. Gardner was an in-house consultant to the US Congress' Office of Technology Assessment. Dr. Gardner has a PhD from the University of Michigan in cell, developmental, and neurobiology.

Paul Klingenstein has been a venture capital investor for most of his professional career, beginning at Warburg, Pincus in the early 1980s. He joined Accel Partners in 1986 and through the next decade helped build a leading venture capital firm. After a brief period as an advisor to the Rockefeller Foundation, he formed Aberdare Ventures in 1999. During this period he has invested in more than 50 companies, the majority of which are now public or have been merged into public companies. These investments comprise mostly early-stage domestic businesses, but also include later-stage, public, and non-US companies, as well as management buyouts.

He serves or has served on the boards of Alibris, Ample Medical, Anacor Pharmaceuticals, Aviron, CapitalThinking, Circline, Glycomed, Idun Pharmaceuticals, Isis Pharmaceuticals, Pharmion, US Behavioral Health, and Xomed Surgical Products. He has served on the boards of various educational and nonprofit institutions including the African Wildlife Foundation, the International AIDS Vaccine Initiative, Juma Ventures, the Marin Country Day School, and the Taft School. He received an AB from Harvard and an MBA from Stanford.

Kenneth Prewitt is the Carnegie Professor of Public Affairs at the School of International and Public Affairs at Columbia University. Prior to that he was dean of the graduate faculty at the New School University in New York, and from 1998 until January 2001 he was Director of the United States Census Bureau. He joined government service following a career in higher education and private philanthropy. From 1995 to 1998, he served as president of the Social Science Research Council, a position he also held from 1979 to 1985. For ten years he was senior vice president of the Rockefeller Foundation, where he directed the international science-based development program involving activities in Asia, Africa, and Latin America. He served for five years as the director of the National Opinion Research Center, based at the University of Chicago. He taught for fifteen years at the University of Chicago, and for shorter periods, taught at Stanford University (where he received his PhD), Washington University (where he received his MA), the University of Nairobi, and Makerere University (Uganda).

Dr. Prewitt is the author or co-author of a dozen books and more than 50 contributions to professional journals and edited collections. He has been elected a fellow of the American Academy of Arts & Sciences, the Center for Advanced Study in the Behavioral Sciences, the Academy of Political and Social Science, and the American Association for the Advancement of Science. He has served on the boards of numerous professional and nonprofit organizations and on advisory boards to the World Bank, the World Health Organization, UNESCO, the National Science Foundation, as well as universities and private foundations.



**Leadership Dialogue:
Robin Hood Foundation and The HOPE Program**

Overview

Started in 1988 by three Wall Street executives, the Robin Hood Foundation invests in more than 100 New York City poverty-fighting nonprofits. The foundation first gave a grant to The HOPE Program in 1989, when the charity was a struggling community-based job-training program with an operating budget of \$300,000. The nonprofit has grown, and funding from Robin Hood now accounts for just under a third of HOPE's \$1.5 million operating budget.

HOPE was a good match for Robin Hood. Both groups believed in attacking poverty at its root causes, and both recognized the importance of measuring outcomes as a means of continual improvement. Despite its low budget, prior to the Robin Hood investment, HOPE had already invested in a staff research analyst to evaluate what was working and what was not.

Robin Hood works with each of its nonprofit partners to establish annual goals, which are then detailed in a signed contract. Those goals relate to the impact of the programs on clients, agency governance, board development, and fundraising. Robin Hood's nonprofit partners are then measured against those goals every year.

Regular evaluation allows the programs to determine what is working and what is not. When a program falls below expectations, the foundation assists in re-focusing the charity's efforts. If performance still doesn't improve, Robin Hood reduces or eliminates funding.

When a program does work, Robin Hood sticks with it. The foundation has been supporting nearly 75 percent of its programs for more than five years. The HOPE Program has been a grantee for 14 years.

One way in which Robin Hood's model differs from other high-engagement funders is that the foundation operates two departments—programs and management assistance—that work separately with the charities. The programs department oversees all grantmaking, monitoring, and evaluation. The management assistance department helps with strategic and financial planning, recruiting, legal and organizational issues, and capital needs. The management assistance staff generally comes from a for-profit management consulting background and develops relationships with blue chip law firms and accounting firms that provide pro bono support to the foundation's nonprofit partners.

Robin Hood's management assistance is available every step of the way. For example, it brought in McKinsey & Company to help a group of its partners, including HOPE, with strategic planning. As a result of the strategic planning process, HOPE gained more government contracts. With more government work, HOPE needed more robust financial systems, so Robin Hood helped it evaluate financial software packages and provided training for staff on the new systems.

Early in the relationship, Robin Hood assisted HOPE in defining its objectives. Robin Hood focused on job placement and retention, but many on HOPE's staff were social workers and felt that clients' improvements in personal development were another sign of success, even if the clients hadn't found jobs. While the team at Robin Hood understood the difficulty of moving from abject poverty to job readiness—and didn't dismiss the significance of personal growth—it stressed the importance of employment outcomes for clients. Using this focused outcome as a measure of performance was a change for the HOPE staff.

Early on, Robin Hood also provided research professionals to help the nonprofit better understand how to measure and understand data and better design its programs. With the insights gained from working with the research firm, HOPE's management team started to think of its program as a lab where they could test hypotheses on how to best move clients out of poverty. For example, it found that clients who had avoided drinking and taking illicit drugs for four months did twice as well at retaining jobs as clients who had been clean for only three months.

As part of its focus on helping its nonprofit partners attain their goals, Robin Hood has modified its grantmaking from providing general operating support to funding functions within an organization that the foundation believes will improve outcomes. This targeted funding includes support of such functions as follow-up counseling or skills training and support after clients have found a job.

Like other non-endowed foundations, Robin Hood has to raise money to do its work. However, Robin Hood sees donor acquisition on behalf of its nonprofit partners as one of the foundation's key responsibilities. As a result, it often taps its network of donors to become board members of its nonprofit partners, even though doing so can mean those donors will begin to support the charity rather than the foundation. As Michael Park, director of management assistance at Robin Hood, notes, this belief in the foundation's role as a board development resource puts them in the position of having to continually find new donors.

Robin Hood was launched on the premise that foundations severely underfund nonprofits, forcing charities to spend time and resources chasing small amounts of money. Its strategy is to provide ample support and to have a significant voice in the work of the nonprofit so that nonprofits can focus on serving clients extremely well. The partnership between Robin Hood and HOPE, one forged over 14 years of working together, demonstrates how shared vision and trust can allow the foundation to have that voice and how two organizations can achieve clearly defined outcomes.

About the Organizations

The **Robin Hood Foundation** was founded in 1988 by hedge fund leader Paul Tudor Jones and two Wall Street colleagues, Peter Borish and Glenn Dubin, to fight poverty in New York City. The Foundation is an engaged grantmaker, applying investment principles to philanthropy. Since its founding, Robin Hood has provided approximately \$175 million in grants and an additional \$95 million in donated goods and strategic support services. In the wake of the September 11, 2001, attacks on the World Trade Center, the Robin Hood Relief Fund was established and since that time has provided \$54 million in funds to those affected by these attacks. Robin Hood board members underwrite all administrative costs so every dollar donated goes directly to those in need.

Robin Hood funds New York City-based poverty-fighting charities that emphasize early childhood development, education, after-school programs, and job training initiatives, plus survival funding in supportive housing, food programs, and AIDS services. It also provides in-depth pro bono management assistance and strategic support services to grant recipients. Finally, Robin Hood coordinates millions of dollars of donated goods and services to its portfolio of community groups.

The HOPE Program combats poverty through its direct services, research, and training. HOPE's service model is designed to provide individuals with the skills and supports necessary to achieve economic self-sufficiency. Located in downtown Brooklyn, New York, HOPE offers training in how to choose, find, and keep a job. It provides work experience, education, counseling, mentoring, and job placement/retention services. Since its founding in 1984, The HOPE Program has helped hundreds of impoverished New Yorkers attain economic independence for themselves and their families.

The HOPE Program's training and services include the following: 16-week job readiness training, GED classes, computer instruction, tutors and mentors, internships, mental health services, job placement and job retention services, loan and grant funds, professional clothing, and breakfasts and lunches. HOPE works with each of its clients for at least two years, with a commitment to a lifetime of follow-up services.

By the Numbers

Robin Hood Foundation

Funds Granted Annually:
\$37.9 million (2003)

Geographic Area of Focus:
New York City

Types of Organizations Funded:
501(c)3 organizations providing social services and education to those in poverty

The HOPE Program

Year Started:
1984

Annual Operating Budget:
\$1.5 million

Mission Focus:
To combat poverty through its direct services, research, and technical assistance.

Services Provided:
Job readiness training, job placement, job retention and career advancement, mental health, workplace literacy, computer and GED training, mentorships, internships, research, and technical assistance

Funder/Nonprofit Relationship

Year Relationship Started:
1989

Total Dollars Granted to Nonprofit to Date:
\$2.11 million

Dialogue

The following excerpts are from a conversation held in September 2003 at the offices of the Robin Hood Foundation in New York City. Participants were:

- **Joe Daniels, Manager, Special Projects, Robin Hood Foundation and The HOPE Program Board Member;**
- **Barbara Edwards Delsman, Executive Director, The HOPE Program;**
- **Suzi Epstein, Director, Job Training & Domestic Violence, Robin Hood Foundation;**
- **Michael Park, Director, Management Assistance, Robin Hood Foundation; and**
- **Alfred Wise, Community Wealth Ventures, moderator.**

Moderator: How did Robin Hood and The HOPE Program first find each other?

Epstein: Robin Hood gave its first grant to The HOPE Program in 1989. That preceded my arrival at Robin Hood by about four years. In its application, HOPE pitched its education and job training programs. Those were two of the areas in which the foundation was interested in making some grants. The foundation was also interested in small community-based programs and was looking to the outer boroughs as well as Manhattan, number one. Number two: It was interested in leadership in grassroots organizations that were fairly small and in a young organizational growth stage.

Moderator: What made Robin Hood say, “This organization has the leadership that we’re interested in?”

Epstein: In the first place, it looked like local, indigenous leadership. The executive director was from the community, as were the clients. And as a poverty fighting foundation, the constituents at HOPE were among the poorest of the poor, so it was absolutely the program participants that Robin Hood wanted to target. Even in the early days, HOPE was able to

demonstrate some results in terms of people finishing the program and getting jobs in Brooklyn, so it was definitely a fit at that time. That grant was renewed for several years, and, when I arrived at Robin Hood in 1993, I was charged with building an employment portfolio and looking carefully at the results of groups that did job training activities. So I was authorized to start giving more money to groups that were already part of the portfolio, while trying to figure out what kinds of practices worked.

Moderator: So when you cast the net, how many organizations were you looking at in 1993?

Epstein: In ‘93 we had half a dozen organizations that were already doing job training that we were probably going to renew and about half a dozen that eventually were cut, although that was done very gradually. Then over the next year or two, I probably looked at 100 organizations and maybe made another dozen grants. To this day, we have probably 25 job training grants at most.

Moderator: And what criteria were you using to evaluate 100 organizations?

Epstein: We were looking at sector-based job training programs where the skills were focused on a particular business or industry for the most part—with a couple of miscellaneous groups like HOPE—where the training was much more general toward work readiness and preparedness. But we were looking at a mastery of work readiness and entry-level skills for a particular business. We were looking at people finishing the program, not just graduating, but actually getting a job. Then we were looking at long-term retention and salaries. What we wanted to say was that the intervention made a difference and that this was a cohort who would not have gotten a job but for the intervention.

Moderator: And did organizations even have that data?

Epstein: No, although I would say that HOPE probably had the best data earliest on.

Moderator: So was that one of the things that attracted you to them?

Epstein: It was one of the things that kept them getting money. It was actually one of the things that kept the grant growing and that also paved the way for other technical assistance. In other words, the management assistance that we were about to offer, we wanted to offer to groups that we were sure would be a good bet and would get continued funding.

Edwards Delsman: I’d like to go back to what attracted us to each other. Robin Hood’s philosophy is to attack poverty at its root causes. In 1988 when Robin Hood was founded, HOPE was four years old. Our mission was to find the underlying causes of people’s homelessness and chronic unemployment and to provide the services that responded to those findings. Philosophically, we were very much in the same place.

Moderator: How did you get to the point of looking at outcomes and metrics at such an early stage?

Edwards Delsman: When Robin Hood began funding HOPE in ‘89, I had just been hired as HOPE’s first research analyst. At that point we had a rich data set but had done little with it. My job was to organize and computerize the data, see what it told us, and find out how we could use our outcomes to make our program more effective.

Moderator: When did technical assistance start and how did that come about?

Epstein: It started in 1993 or 1994. Robin Hood had a management assistance department from its own inception. When I got here, there was a trove of information on correlations between different subjects of the population. We could see that women may have graduated at a higher rate but didn’t get jobs at quite

as good a salary as men, for example. Or women got jobs but because of issues with childcare often had to struggle much more with retention. Younger people did not do as well as older people. If you were over 29 or 30, it was a better bet that you were going to finish the program and get a job.

Moderator: So in '93 Robin Hood was doing evaluations with HOPE. Did you welcome that?

Edwards Delsman: Oh, did we ever. The evaluation process started when I came on board. I was able to help the staff understand the importance of outcome thinking, but we were still looking at our results at a fairly basic level. Things really changed when we had the assistance of the professional researchers, Philliber Research Associates, an evaluations firm that works with Robin Hood. We never felt that they were looking over our shoulders; they sat at the table and partnered with us. For example, if we found that women were getting jobs but weren't keeping them, we'd ask, "Well, why not?" With Philliber's assistance, we were able to delve deeper into our data to find causes. In this case, the lack of child care would prompt our next question, which was, "What can we do about that?" It wasn't just information for information's sake. Our evaluations led us to add to our services, in this case by pro-

viding assistance with finding child care.

Having professional consultants also enabled us to think of our program as a lab in the truest sense of the word, meaning we could test different hypotheses. For instance, we had a sense that the amount of time that our clients had been clean and sober before they started our training affected the likelihood that they would complete our program and get a job. Our hypothesis was that one additional month of clean time might make a big difference. So we set up an experimental group and a control group, and we did in fact find that people who were clean for only three months did half as well as people who were clean for four months. We couldn't have done that kind of hypothesis testing without the advice of research professionals. Another example of HOPE as a lab was our testing of the vocational impact of on-site psychotherapy. Our findings indicated much better outcomes for those clients who opted for therapy on-site. Because of the high level of significance of these results, we now offer therapy on-site to all of our clients.

Epstein: One of the things that Robin Hood saw from the evaluations of all job training programs, including HOPE, was that there were many, many people who finished the program and whose personal development grew and improved a great

deal and who may have gotten medical services, a driver's license, their teeth fixed, or reunited with their families, and completed the program, but that there wasn't solid, encouraging data on getting and keeping a job. HOPE was very, very proud of its completion rate, and even the job placement rate was okay. We didn't have a lot of follow-up information, and we didn't have as high a job placement rate as we were hoping to see. Actually, Robin Hood had a meeting with HOPE's executive director and a board member at the time and quite vigorously reviewed a lot of broad data and asked a lot of questions about the program's mission. We had a number of debates about it. Is it social services? Is it education? Is it job training and placement? We did that with a lot of groups. We had some vigorous debate about what Robin Hood's goal was, which was job training and placement as opposed to personal growth, and what the community-based organization's goals were. There were a lot of struggles around that time, and it was like a Polaroid picture going from fuzzy to clear in terms of what direction different social services groups were heading. HOPE is definitely an example of that. There were a lot of people who finished the program and who made many, many gains, but those gains were not necessarily around employment.

On the Relationship

"When we make a grant, we develop a contract that has half a dozen to a dozen goals that include the impact on clients and other things, like agency governance, board growth, fundraising." —Epstein

"We write the goals first in our year-end report... The goals start with us and then they go to Robin Hood... That's where the dialogue begins, and usually Suzi will want them to be tougher or more aggressive." —Edwards Delsman

"Thinking of Robin Hood not only as a funder but as a partner, as well, that's something I would not have thought of as possible early on. And by partner I mean that we can go to them and say, 'Hey, this problem arose that we hadn't anticipated. We need help or we need your expertise.'" —Edwards Delsman

"When groups meet their contract goals, they're not going to be de-funded, even if 20 other new groups come along that are absolutely stellar, because the group met its contract obligations." —Epstein

"What we've said to grant recipients is that we will not jeopardize your funding because of a management problem. We expect that management problems and issues are part of the territory with nonprofits, and our job is to help you figure out how to deal with them rather than to penalize you for them." —Park

"You have to be totally committed to this concept. This means that you have to be willing to be brutally honest and understand that's how you're going to learn. ...if you view the process as a burden, then it's not a relationship you should get into." —Edwards Delsman

Moderator: Did Robin Hood change where HOPE was aiming or did Robin Hood help it clarify its aim?

Epstein: I would like to say we helped clarify and help sharpen the focus.

Edwards Delsman: Definitely. Although there's always—I guess I would call it—a tension around this. For example, we might be working with a woman who comes to us with no teeth, who's living in a shelter, and who does not have custody of her child. If, at the end of our training she has teeth, has an apartment, and has custody of her child, then we believe that she has made significant progress.

The difference is that Robin Hood—if I can speak for you—would say, “Yes, but that's not what we're funding you for. She still doesn't have a job.” Most of the HOPE staff are trained in social work and psychology and are frustrated when they feel that we are evaluated by hard outcomes only. As the executive director, I have to find a way to acknowledge and affirm all of the work that they put into getting this woman to where she is and make it clear that because of them she has moved much closer to her ultimate goal, economic self-sufficiency, but she is not there yet.

Moderator: When you started helping them clarify their objectives, was it a process that Robin Hood focused on or did it just come about through discussion?

Epstein: I think it was a little bit of both. One of the ways that we took care of it was to start making more targeted grants allocated toward particular functions within an organization. So, as opposed to giving general operating support, we would give money for the follow-up counseling or remedial instructors, or skills trainers. In the group currently enrolled, we're funding case management and post-placement support. With HOPE, you can see an evolution of the purpose of the money of each grant from year to year. We gave general operating support from '88 to '95, and, then after two years of looking at that, we started targeting the money toward the training itself and the post-placement support.

Moderator: Michael, could you talk about how Robin Hood is structured?

Park: We have a programs group charged primarily with grantmaking functions. They own the relationship with grant recipients, conduct the primary due diligence on grants, and are the link with monitoring and evaluation. They're involved in questions of programmatic development of the organization, and how the relationship or the group gets promoted with other funders. On the management assistance side, we have a group of people whose professional backgrounds are more in management consulting and some in direct operations of nonprofits. So the way we divide the work internally is that the ongoing relationship, the grantmaking relationship, and consideration of high-level issues tend to be more on the program side. Specific projects or advice often comes to the management assistance side. One of the reasons we want to talk about the HOPE program is that it shows that if we help organizations not only get the money to operate their programs but also fund evaluation, they can use evaluation as a tool for program improvement and for growth of the organization.

Moderator: There can be funder outcomes and expectations, and then there are the nonprofit's outcomes and expectations. Hopefully they align, but sometimes they don't. How do you get to where you know what you're even measuring?

Epstein: There's a dialogue on what we measure in terms of the impact of direct services on clients. Now, many, many results that are captured by the evaluation may be valued more or less by groups and more or less by the foundation. When we make a grant, we develop a contract that has half a dozen to a dozen goals that include the impact on clients and other things like agency governance, board growth, fundraising. These things are not part of the independent third-party evaluation, which is only looking at direct services for clients, but are evaluated by foundation staff members.

Park: Over the years we've become better at putting the capacity-building goals in as

part of the contract goals, which may not be the focus of the evaluation but part of our overall evaluation for renewal grants.

Moderator: Barbara, with most foundations you write an application and then you get funded and you don't have a contract and you don't have these board-building goals. How does HOPE deal with that?

Edwards Delsman: Our experience has been that we write the goals first in our year-end report—we put down what we would like to accomplish the next year. The goals start with us and then they go to Robin Hood. Then Robin Hood—in our case, Suzi—will look at them and then we start talking. That's where the dialogue begins, and usually Suzi will want them to be tougher or more aggressive. The key point is that the goals start with us. I never feel that any of them have been imposed on me.

For example, one of our goals is to increase revenues to better secure our financial stability. We negotiated a goal to add two people to our board who can help us by increasing our individual donor base and help us increase corporate giving.

Moderator: Let's jump back a bit to 1993 and '94. How else did Robin Hood get involved?

Epstein: We started looking at board development at that time because that's been key for many groups in terms of fundraising and in terms of having boards function appropriately. Our early board work in management assistance at that time was to get the board to form several committees that met regularly so that the whole board didn't have to meet, and there would be different representatives within the board to push internal governance forward. I believe we also looked at financial systems, whether a group's bookkeeping and fiscal procedures would pass muster.

Park: We got folks in law firms to come in and help us, pro bono, look through the organizational documents, look through some of the fiscal controls.

On Planning

“We had done a strategic plan once before that was not helpful, but this one proved to be very useful. Within a little over a year, we experienced rapid growth. The clients we served increased by 50 percent and our expense budget by 41 percent. We renovated new space, moved, and hired and trained additional staff. If we hadn’t had this plan, it could have been a disaster.”

—Edwards Delsman

“The fact that the process took a year was necessary to build the relationship between the McKinsey and HOPE teams.... It definitely took some time to form a real relationship where the organizations felt like we could contribute.”

—Daniels

“It turned out through market research that a lot of the beauty or success of the program relied on keeping the model relatively small.”

—Daniels

“When I came on board...we were in a survival mode.... Our focus was only getting through the next four months,...so I didn’t have a vision beyond survival. That has all changed. Now I have a very clear vision for HOPE.”

—Edwards Delsman

Nobody wanted to call it an audit, but it was the content of what you would find in an audit.

Edwards Delsman: Robin Hood brought in Cadwalader, Wickersham & Taft to help us with our personnel manual and also had consultants who helped us understand the cost of each of our program components. That was helpful, and to this day we evaluate the cost-effective-

ness of every new program component.

Moderator: Was there an assumption of more funding if you went through some of this technical assistance or was the technical assistance valued in and of itself?

Edwards Delsman: In and of itself.

We’ve gotten help from quite a few top-notch professional firms. Right now we are working with Deloitte & Touche on a fiscal policies and practices manual. This is in addition to the in-house expertise that Robin Hood has provided. We could never afford to pay for this level of help from some of the most respected companies in the city.

Moderator: So early on it sounds like you started getting a tighter grip on financials and being able to look at costs and at measuring outcomes. What else had an impact?

Edwards Delsman: Well, there’s a lot. Thinking of Robin Hood not only as a funder but as a partner, as well. That’s something I would not have thought of as possible early on. And by partner I mean that we can go to them and say, “Hey, this problem arose that we hadn’t anticipated. We need help or we need your expertise.” For example, as we began to expand and our services became more comprehensive, we had to decide which services we wanted to provide internally. Did we want our mental health services to be in-house or did we want to develop strategic alliances outside of HOPE? So we talked to Robin Hood, asked for their advice and ended up providing mental health, computer training, and GED classes ourselves, and forming alliances for drug treatment, legal, and housing services. We’ve continued to turn to Robin Hood’s management assistance program and its educational workshops over the years. Our board and staff have attended trainings on everything from assessing risk to reading a 990.

Epstein: HOPE did a number of things that were also instructive to us in terms of best practices and looking at how we wanted to make grants. One example is that HOPE excels at offering mental health

services to clients. They had a collaboration with a graduate psychology program, which was very effective. It was much higher level in terms of a clinical intervention than a lot of other groups were offering, where they merely hired a counselor to talk to people in a group once or twice a week. It helped us fertilize a lot of other programs in terms of using their model.

Moderator: Describe how you decide what assistance is needed.

Park: It’s an iterative process. In 2000, we piloted a program in which McKinsey & Company consultants worked with six grant recipients. It was a team from McKinsey and a Robin Hood person who paired with each of the six and over the course of nine months developed a strategic plan. That’s how we got Joe Daniels because he was one of the consultants at McKinsey who was working with HOPE. As a result, and just to illustrate the iterative cycle, one of the issues that came up was the funding mix for The HOPE Program. The organization’s budget was somewhere between \$1 million and \$1.5 million, all privately funded, essentially. The parts of the discussion I remember hearing were something like, “It wouldn’t really kill you to go out and get a government grant. I know it’s going to be a lot of trouble to manage and it will create a number of headaches, but if the program is to grow like we’re talking about strategically, and also if you’re to continue using the program as a model to be more widely recognized, some of the headaches that come with government funding are really worth it because people pay more attention.”

So they listened to that advice; it became part of their strategic plan. About six or eight months after the strategic plan had been completed, Barbara called and said, “Okay, we said we were going to go after this government funding. We’ve been more successful than we thought. We’ve actually hit on every one that we applied for. As we look ahead we realize that a year from now we’re going to need to prepare for an A133 federal audit, which we’ve never done before. It’s clear that our accounting systems are not up to snuff to handle an A133 audit, so can we

get some help from you guys to evaluate accounting software, look at the training that we need for staff, and go through a process of getting ready so when we get to that juncture we will be ready?" So it's another iteration of previous fiscal work that had been done but as a result of the growth that happened in the agency.

Edwards Delsman: With our strategic plan, we decided to expand. We had done a strategic plan once before that was not helpful, but this one proved to be very useful. Within a little over a year, we experienced rapid growth. The clients we served increased by 50 percent and our expense budget by 41 percent. We renovated new space, moved, and hired and trained additional staff. If we hadn't had this plan, it could have been a disaster.

Moderator: How did you develop the plan?

Edwards Delsman: It took us over a year—an exciting and a occasionally stressful year. We did it with the board, staff, and Joe, who was with McKinsey then. We interviewed our stakeholders carefully and thoughtfully. We met frequently and were as inclusive as possible.

As a result, we not only moved and expanded but upgraded our systems as well. We now have cost-allocation accounting software, which allows us to be more fiscally accurate. We upgraded our computer lab—we have 25 state-of-the-art, networked computers—with technological help from another Robin Hood group. We received real estate assistance

from attorneys in Robin Hood's management assistance pool. After this experience, I firmly believe that any group that grows as quickly as we did has to have a solid plan and assistance in place. Without both, that kind of rapid growth could be unmanageable.

Park: This was also just as the economy was starting to plummet. So the fact that you expanded that quickly in such a tight funding environment is amazing.

Moderator: Talk about the strategic plan because a lot of organizations say, "We're going to have an afternoon retreat and do our strategic plan."

Daniels: It's basically a year-long process that involved six groups. From the McKinsey side, we assembled groups of consultants with an engagement manager, a couple of associates, and junior business analysts, and they were assigned to individual groups. There were monthly meetings and someone from Robin Hood would lay out what was lined up for that evening's meeting, and we used strategic plan templates that McKinsey helped develop.

The fact that the process took a year was necessary to build the relationship between the McKinsey and HOPE teams. At McKinsey, we were mostly young consultants, and we were dealing with direct service providers that have lots of experience in the field and are probably pretty high level in the first place if they're Robin Hood grantees. It definitely took some time to form a real relationship

where the organizations felt like we could contribute. At the end of the strategic planning process, HOPE was kind enough to ask me to join the board. The most valuable thing that came out of the plan was a definition of the strategic objectives of the organization. At that time, there were a lot of different notions on the board about what HOPE was and what HOPE could be. Just the very exercise of saying, "Over a one-year, three-year, and five-year period, what is the direction of HOPE? What are the four things that we want to accomplish?" was very helpful. That is instructive not only on a strategic level but on an operational level. What are we doing the next day? What are we doing a month from now? Two months from now? There are still folks on the board who have this idea of, "What else can we do out there in the universe," but it's helpful to be able to go back to a document that has been syndicated and thoroughly discussed and say, "You know, we've tackled this before. This was the thinking then. Unless something has radically changed, maybe we don't want to deviate and go off in another direction."

Moderator: So it's two years into the plan now. How are you tracking against it and what have been some of the modifications?

Edwards Delsman: We're pretty much on target with everything. The one area in which we deviated was in enrollment size. In the strategic plan we put a cap on annual enrollment in our training program and on the overall number of clients served each year. Last year we exceeded

On Leverage

"Robin Hood brought in Cadwalader, Wickersham & Taft to help us with our personnel manual and also had consultants who helped us understand the cost of each of our program components...Right now we are working with Deloitte & Touche on a fiscal policies and practices manual...We could never afford to pay for this level of help from some of the most respected companies in the city."

—Edwards Delsman

"We rely on feedback from the client who is getting the work. In some cases, we're working with very small or very new organizations, and they're hesitant to provide negative feedback to a funder. There's something that doesn't feel right about the work, but they think, well, they're supposed to be the experts so who are we to argue. This happens with, for example, the white-shoe Wall Street law firms that we get involved with to do a personnel manual... and small social service nonprofits feel uncomfortable going up against these experts."

—Park

the cap on enrollment and considered modifying the plan. I don't think that's a major issue, though.

Daniels: I personally thought that was a big deal because there was certainly input from the board that says that even after doing the market research, we've got a successful program here; why not get bigger and bigger and bigger? It turned out through market research that a lot of the beauty or success of the program relied on keeping the model relatively small.

Moderator: So the plan came to a conclusion that you don't want to scale this across the city?

Daniels: Exactly. It wasn't saying that HOPE didn't have a very important role in causing a greater impact or influencing the field, because that was something that was highlighted as something we should do. But the method of achieving that wasn't to have HOPE staff get bigger and bigger and serve more people. It was saying, let's look at the good things HOPE has done through its research and its actual work and share that with others in this industry and influence practices that way.

Edwards Delsman: We discussed how to have the greatest impact in our field. We decided not to replicate and concluded that we could have an even greater impact if we used our research and our experience to inform our training and technical assistance efforts.

Moderator: Does the strategic plan focus on fundraising at all?

Daniels: One of the objectives is to secure HOPE's financial stability so there is a whole set of objectives about the number of donors, where the money is coming from, and how much is raised.

Epstein: Because of the plan, they had put forth a goal that they needed to raise a certain amount of money from first-time donors. They made that goal last year. I think they raised \$200,000 from first-time contributors.

Moderator: How does Robin Hood's funding and assistance work with other funders?

Edwards Delsman: Robin Hood has certainly helped by introducing and recommending us to other funders.

Moderator: How do other funders respond? Is HOPE seen as a Robin Hood investment and they're coming in second?

Epstein: There are funders who call me and beg me for good groups to fund. Many of them say, "We know you did your due diligence. Who's a good bet?" I would say overall our involvement is positive to varying degrees. It's certainly never negative.

Park: I also think that our development capacity at Robin Hood has been

growing and our funding has been growing. Shortly after the strategic plan was completed, the size of our grant to HOPE doubled. I think when other funders look at this, they see it as a recommendation from a funder that has done its due diligence.

Moderator: What have been some of the biggest challenges in the past two or three years with this relationship?

Edwards Delsman: Our staff's involvement in the contract renewal process has grown exponentially from the early years when they were only marginally aware of the process. Today, they know that funding is highly competitive and that our outcomes are compared to those of other programs. As a result, they work with our researcher to make sure that every single client, every single outcome is counted. There is a lot of tension around this process.

Moderator: And is next year's grant commitment conditional on that comparison of HOPE against other job training programs?

Epstein: Yes and no. HOPE has a grant this year of close to half a million dollars. We're trying to fund the groups that are the best at what they do compared to other groups. We're comparing apples to apples. If a group comes in and says, "Ninety percent of our folks kept their jobs." We ask, "Is that 90 percent of the

On the Board of Directors

"Our early board work... was to get the board to form several committees that met regularly so that the whole board didn't have to meet, and there would be different representatives within the board to push internal governance forward."
—Epstein

"We were a four-year-old, small, grassroots organization when Robin Hood first met us. Our board members were with us because they had an emotional commitment to our mission. What we need now are directors with professional expertise. Robin Hood is helping us with this transition. They helped us to identify what skills we need and then followed up by helping us recruit board members with that expertise."
—Edwards Delsman

"The general policy at Robin Hood is that current staff members will not be placed on a grantee board."
—Daniels

"In a lot of organizations where the executive director does not have a very good partner in the board...we see the best role we can play is in sourcing candidates for their board, and those are primarily Robin Hood donors....In some cases people have said, 'Okay, part of our job here is to fundraise. I'm going to have to make a choice about whether it goes to this program or to Robin Hood.' We say, 'If you take a board seat, your primary obligation is to that program, and we'll figure out some other way to replace you as a donor.'"
—Park

people who started or 90 percent of the people who finished?” So, number one, we really are trying to keep everything uniform. Certainly when groups meet their contract goals, they’re not going to be de-funded, even if 20 other new groups come along that are absolutely stellar, because the group met its contract obligations.

One of the big challenges, at least with job training, is that we try to set fairly aggressive goals, but there is nothing anyone can do about the environment. Certainly in the last two years we’ve seen a number of disappointments in terms of job retention because folks are fired because of downsizing, not because individuals have run into trouble with attendance or behavior or job performance. We have groups that didn’t quite hit their salary target because folks are being hired at \$8 an hour where we set a goal of \$8.50. It is a challenge for both the foundation and the grant recipient because we can set goals that are aggressively optimistic and viable but that are not met, and it has nothing to do with the organization’s performance. Then we have to weigh that and justify that to our board when it’s saying that results look flat.

Moderator: How do you report to Robin Hood shareholders, your investors, on what the job training programs that you’re funding are doing?

Epstein: We report on both the aggregate and on the individual programs. So if in the aggregate, 20 groups, one out of three people are keeping a job for a year or longer, for example, that’s one metric. Average salaries are about \$9 an hour at this point, and about 75 percent of the folks who are placed get jobs with benefits. It’s much higher than the national averages in terms of people with health insurance and benefits like that. Those are the main things.

Moderator: Do you also have similar metrics with your other program areas?

Epstein: Job training is the most concrete and it’s the easiest to evaluate. But, yes, in each of our portfolios we have several goals. I’ll give you an example. I do

alternative high schools. So in that portfolio, we’re looking at graduation rates. We’re looking at the Regents state test pass rates. We’re looking at the number of kids who attend college. We’re looking at the number who get jobs who are not going to college. We’re looking at avoidance of negative behaviors—arrests and criminal justice outcomes. We’re looking at SAT scores where we can get them. For early childhood, for Head Start, we may be looking at going to mainstream kindergarten or special needs. We’re looking at parent involvement, and, in that instance, resolution of issues within the family, social services issues. For that portfolio, we are much more looking at activities than outcomes. We look at units of service and referrals more than resolution of an issue. For youth programs, we are looking at academic achievement, avoidance of negative behaviors—pregnancy, criminal justice arrests. So for each of the portfolios, we’re looking at four or five metrics. It’s the easiest with job training because it’s very concrete.

Edwards Delsman: For us, an ongoing challenge is to continue to come up with ways to improve our performance that don’t involve growth. As I mentioned before, in our strategic plan we capped enrollment. One reason for this is that we’re seeing an increase in clients with serious barriers to employment who require more intensive services in order to become job ready. So if a continuing increase in clients served is considered to be a key measure of success, we are in trouble.

Moderator: Do you turn away people who are perhaps the hardest to serve because you know it will depress your numbers for the year?

Edwards Delsman: We refer them to other programs only if we feel we can’t help them, and that’s if they’re using drugs or if they have extremely serious mental health problems. But if we feel that as a result of our services they can get a job, even if that means we have to provide more services or put more time into those services, then we’ll work with them.

Epstein: We are not interested in funding groups that are “creaming.” We’re very clear about that. Certainly because of the nature of some of the job training protocols, there are groups that have to screen for eligibility, so you can’t get through some of the job training programs unless you’re reading at a fourth- or fifth-grade level. Otherwise, you wouldn’t be able to read the printing manual or you wouldn’t be able to learn to write a business letter. We consider that screening rather than creaming. We’re certainly not looking for groups to give everybody a motivation test and only take the people who seem the most motivated or who have a history of employment. HOPE is very good at highlighting all the barriers to employment, and, because of that, we have developed something we’re calling a severity index, in which we assign values and points to different problems that people have so that we see exactly how different and difficult the population is. HOPE has a very high severity index because among its participants are folks with a history of homelessness, substance abuse problems, incarceration, domestic violence, and all kinds of domestic chaos. Those are difficult barriers to employment. We have some job training programs where you’ll find folks with many, many problems, but they’re softer. English may not be their first language. They may be single moms, but they don’t have a history of serious problems, so they will get a severity index of two rather than eight.

Moderator: Let me change gears to talk about the board and how you rebuilt it.

Edwards Delsman: We were a four-year-old, small, grassroots organization when Robin Hood first met us. Our board members were with us because they had an emotional commitment to our mission. What we need now are directors with professional expertise. Robin Hood is helping us with this transition. They helped us to identify what skills we need and then followed up by helping us recruit board members with that expertise. Their assistance worked well for us recently when we added two new board members, one with expertise in marketing and another with connections to large donors. We also received help from Robin

Hood in developing job descriptions for board members and committees and guidelines for board evaluations.

Moderator: So if there is an issue that HOPE is dealing with internally that hasn't gone to a funder level yet, Joe, with your two hats, where do you weigh in?

Daniels: The general policy at Robin Hood is that current staff members will not be placed on a grantee board. I was already on the board before I joined Robin Hood so was grandfathered in. The outgrowth of that is that there's not really a two-hats conflict. I'm a HOPE board member and there are lots of internal discussions going on, but I don't even put the other hat on as far as approaching Suzi or anybody about that because Robin Hood's policy demonstrates that that's not what we do.

Park: We already have a strong voice, as you've heard, primarily from the program side. We also have a clear policy that we share information. I don't want to be in a position where Barbara calls me up and says, "I want help with this, but I don't want it to get back to Suzi." That's not a good kind of relationship. What we've said to grant recipients is that we will not jeopardize your funding because of a management problem. We expect that management problems and issues are part of the territory with nonprofits, and our job is to help you figure out how to deal with them rather than to penalize you for them. We also believe that management expertise and excellence are connected to program outcomes and successful programs, but they're not a one-to-one relationship. So, to put it another way, you can slide by for a few years on an under-par accounting system and still deliver some pretty great program outcomes. But you can't live that way forever. Eventually, if your books are that screwed up, it's going to come back and bite you.

It's very similar with the board of directors. In a lot of organizations where the executive director does not have a very good partner in the board and board members need to grow into their responsibility, we see the best role we can play is in sourcing candidates for their board, and those are primarily Robin Hood

donors. Our grant recipients don't have as much access to people who have certain professional skills or who might be able to ramp up fundraising efforts. So that's why we have a board recruiting function as a part of management assistance. We're pretty clear with the people we recruit that when you go on this board of directors, your job there is to be a board member of The HOPE Program or whatever, not to be a spy for Robin Hood. And, in fact, in some cases people have said, "Okay, part of our job here is to fundraise. I'm going to have to make a choice about whether it goes to this program or to Robin Hood." We say, "If you take a board seat, your primary obligation is to that program, and we'll figure out some other way to replace you as a donor."

Moderator: Looking back over the past four or five years, what would you have done differently?

Edwards Delsman: In our strategic plan, we had decided to cap enrollment. In setting our goals with Robin Hood, I had agreed to serve more people than I honestly felt that we could handle. The number exceeded what was in our strategic plan. It turns out we couldn't handle that many clients.

Since then, I've talked to Suzi and we've come to an agreement that we will lower the number who enroll in our job readiness program and increase the number in our job retention and career advancement program. Trying to enroll more took a toll. It was stressful. In hindsight, I wish I had just explained to Suzi that we couldn't do it and why, before the fact rather than after.

Moderator: And why did you agree to it?

Edwards Delsman: Because I wanted to please Suzi, to be honest. I felt it was important to Robin Hood.

Epstein: It almost looked doable and we didn't want to be complacent in terms of, okay, just keep doing what you're doing.

Edwards Delsman: Yes, it's that whole idea that growth is good.

Park: I think one of the missteps that happened around the time I came on board, or just a little before, is that we had recommended a fiscal consultant who did not deliver very good service, and we were not sufficiently on top of that to understand what the problems were early enough to intervene and correct them.

Moderator: How do you know that they didn't do a good job?

Park: We rely on feedback from the client who is getting the work. In some cases, we're working with very small or very new organizations, and they're hesitant to provide negative feedback to a funder. There's something that doesn't feel right about the work, but they think, well, they're supposed to be the experts so who are we to argue. This happens with, for example, the white-shoe Wall Street law firms that we get involved with to do a personnel manual, or something like that, and small social service nonprofits feel uncomfortable going up against these experts. So it's hard sometimes to go to these firms and say, "I think you need to take a different tack to serve this organization well. We appreciate that you're doing this pro bono." This was not the case with HOPE, but I think the biggest example has been in setting up the 501(c)(3)s. The corporate lawyer's natural reaction is to put up membership corporations, and they're usually closely held and they can supersede the actions of the board. They think of it as, if the executive director is the driving force behind this organization, she would want some insulation between her and this board of directors who could fire her. It's exactly 180 degrees opposed to our belief, which is that this is a public trust organization. You have to have board members authorized to do this. So those kinds of things sometimes are a difficulty in having pro bono partners provide this service.

Moderator: Looking into the future, how do you see building or expanding upon what you've done?

Epstein: I would expect that their grant would probably continue to increase somewhat. Maybe their numbers would go up a little bit with the services. If not

getting wider, those services might get deeper. Because one of the things they want to do is more technical assistance, I would expect that that's an area where they're going to grow. They could offer some information consulting support to other New York City small job training groups and maybe ratchet up their visibility in terms of other researchers who are doing studies and monographs on best practices.

Edwards Delsman: We're in the middle of a research project right now with Public/Private Ventures taking a look at the reasons why people don't complete our training program. Once we have a better understanding of non-completers, we'll use our findings to see if we need to reconfigure our assessment or our services. As with all of our research, we will incorporate our findings into our technical assistance curriculum. In the future, I would like us to raise our profile by expanding our research, the underpinning of our direct services and the foundation of our technical assistance.

Moderator: Over the past 10 years, how has this relationship evolved versus what you envisioned?

Edwards Delsman: When I came on board, we had just lost most of our government funding, which had decreased from 34 percent of our income to 8 percent. We were in a survival mode. At that time I was not thinking about long-term planning. Our focus was only getting through the next four months, which was the length of a training cycle. It was only when that fiscal crisis passed that we were able to begin to think about long-term planning. So I didn't have a vision beyond survival. That has all changed. Now I have a very clear vision for HOPE.

Moderator: You're making recommendations to other funders who are interested in this sort of high-engagement approach. What do you tell them?

Epstein: It takes a lot of time. If you're going to take a high-engagement approach, you have to be prepared to sit down on the floor with a lot of paper and read it thoroughly and carefully. Be very, very patient. You don't turn things around in a year. And in order not to make false equations, be familiar with every aspect of the program because looking at it in bits and pieces does not give you the whole picture. I also think it takes more than one person. I don't think any one person or

program necessarily has the skill set to think about every aspect of an organization.

Moderator: Do you think more funders should be taking this sort of approach?

Epstein: I don't know. When several funders take this approach with the same organization, the organization could feel like it is serving a dozen masters and that could be very, very bad. So, yes, I think maybe more funders should take that approach, but they should divide up the pie.

Park: Here's the other piece that I would add. You said it would take a lot of time. It also takes a lot of money. Some of the work in the field of engaged philanthropy has been about more and more time spent on not a lot more money. The worst outcome for a nonprofit could be if many other funders who were accustomed to giving grants in the low five-figure range started to try and become more engaged. That's just multiplying headaches, and it doesn't provide resources.

Resources are key. One of the structural problems in the nonprofit sector that our board looked at when it first founded Robin Hood was not simply that there

On Outcomes and Evaluations

"HOPE probably had the best data earliest on...It was actually one of the things that kept the grant growing and that also paved the way for other technical assistance."
—Epstein

"I was able to help the staff understand the importance of outcome thinking, but we were still looking at our results at a fairly basic level. Things really changed when we had the assistance of the professional researchers [from Robin Hood].... For example, if we found that women were getting jobs but weren't keeping them, we'd ask, 'Well why not?' ...We were able to delve deeper into our data to find causes."
—Edwards Delsman

"The HOPE program... shows that if we help organizations not only get the money to operate their programs, but also fund evaluation, they can use evaluation as a

tool for program improvement and for growth of the organization."
—Park

"One of the big challenges, at least with job training, is that we try to set fairly aggressive goals, but there is nothing anyone can do about the environment... we can set goals that are aggressively optimistic and viable but that are not met, and it has nothing to do with the organization's performance."
—Epstein

"An ongoing challenge is to continue to come up with ways to improve our performance that don't involve growth. ...We're seeing an increase in clients with serious barriers to employment who require more intensive services in order to become job ready. So if a continuing increase in clients served is considered to be a key measure of success, we are in trouble."
—Edwards Delsman

wasn't a broader relationship with organizations, but they also said the typical practice in philanthropy is that we drastically underfund what organizations need in order to accomplish their objectives. When you give \$10,000 and \$20,000 grants and you make organizations work very hard to get those grants and then keep and manage them, it doesn't help them to achieve their objectives.

Epstein: You also have to be prepared for a modest rate of return. Certainly with job training, it's a very modest result. Nobody makes adjustments in their behavior and in their lives in a year or two. So if one out of three people are keeping a job for a year, realistically, what's that going to go to? From 35 percent to maybe 50 percent. So we have to be prepared that our grant of a quarter of a million, \$300,000, \$500,000 is going to maybe make a difference of several percentage points over a couple of years, and then it's not going to go that much higher. So be prepared for a modest rate of return. But I would argue that it is worth it because it is priceless what you can do for a small number of people.

Moderator: And what would you tell other nonprofit leaders who are considering this sort of engagement?

Edwards Delsman: First of all, know the funder well because you will be working together very closely. Second, you have to be totally committed to this concept. This means that you have to be willing to

be brutally honest and understand that's how you're going to learn. You have to embrace the philosophy underlying high engagement. And if you view the process as a burden, then it's not a relationship you should get into.

Moderator: Looking forward, if you could change anything in the relationship, what would it be?

Edwards Delsman: I would hope we'd have all the money and Robin Hood would be coming to us.

Moderator: That's a great way to end. Thank you very much.

On Other Funders

"There are funders who call me and beg me for good groups to fund. Many of them say, 'We know you did your due diligence. Who's a good bet?'"

—Epstein

"Shortly after the strategic plan was completed, the size of our grant to HOPE doubled. I think when other funders look at this, they see it as a recommendation from a funder that has done its due diligence."

—Park

"Robin Hood has certainly helped by introducing and recommending us to other funders."

—Edwards Delsman

"It [high-engagement philanthropy] takes a lot of money. ...The worst outcome for a nonprofit could be if many other funders who were accustomed to giving grants in the low five-figure range started to try and become more engaged. That's just multiplying headaches, and it doesn't provide resources."

—Park

The Participants

Joe Daniels' role in Robin Hood's Special Projects group is manager of operations. Before joining Robin Hood, Daniels spent two years consulting for McKinsey & Company, where his focus included financial institutions and securities exchanges. He also led an effort exploring the field of social investing, which seeks to obtain market rate financial returns as well as positive social impact. Previously, Joe was an attorney at Cravath, Swaine & Moore in New York City. He earned his undergraduate degree in history at Washington University in St. Louis and his law degree at the University of Pennsylvania.

Barbara Edwards Delsman has been with The HOPE Program for 14 years. Originally hired as a part-time research analyst, she became the program's development director and for the past seven years has served as executive director.

Before coming to HOPE, Edwards Delsman was the program director of the University of Miami's computer training program for physically disabled adults. During a good part of her career, she has been overseas. In Iran, she was the executive director of Community Adoption Services, and in Panama she taught math at Panama Canal College. She has a master's degree in experimental psychology and a bachelor's degree in mathematics.

Suzi Epstein joined Robin Hood after serving as executive director at Sanctuary for Families, a Robin Hood grant recipient. Sanctuary for Families provides emergency shelter, counseling, and other services to abused women and children. Under Epstein, Sanctuary planned and launched the largest New York City transitional housing project for victims of domestic violence, significantly broadened its funding base, and introduced tighter financial controls and reporting systems. Before that, Epstein held a number of other high-level positions in social service agencies including the Northern Westchester Shelter and The Manhattan Bowery Corp. She holds a BA in history from the University of Rochester, was a visiting student at the Georgetown University Law Center, and received her JD from Hofstra University in 1979. She spent a number of years in the legal profession—as a criminal investigator for the Georgetown Criminal Justice Project and as a clerk to Judge James A. Washington, Jr. of the Superior Court of the District of Columbia—before entering the social service sector.

Michael Park is director of management assistance at Robin Hood. He leads Robin Hood's efforts to augment the impact of its grantmaking through capacity-building grants, donated professional services, and services provided by staff consultants. Before joining Robin Hood, Park worked as a consultant at Downey Associates International and the Girl Scouts of the U.S.A., and held senior operating roles in faith-based community organizations. Park is a faculty member of the Institute for Nonprofit Management at Columbia Business School and a graduate of the Pepperdine University School of Business program in organizational development. He also holds degrees from the Catholic University of America and the University of Utah.



**Leadership Dialogue:
The Center for Venture Philanthropy
of the Peninsula Community Foundation and
lead partners in the Assets For All Alliance**

Overview

Launched in 1999, the Assets for All Alliance began as a six-year program designed to help low-income individuals in Silicon Valley acquire those assets that historically have moved people out of poverty. The program teaches participants about managing and investing money and provides incentives to set aside part of their income toward a goal of buying a home, starting a business, or furthering their education.

To participate in the program, families attend financial literacy classes, get support from case workers, determine their financial goals, and start making monthly deposits to an Individual Development Account (IDA). Families who save up to \$2,000 over a period of two to three years receive 2:1 matching funds from the Assets for All Alliance, allowing the family to accumulate up to \$6,000 to invest in its asset goal.

The Assets for All Alliance has become the largest IDA program in the United States, with 1,100 participating families. The average household income of participants is \$24,000 per year, and 80 percent of participants make regular deposits to their accounts. The average savings deposit is \$63 a month.

The Center for Venture Philanthropy (CVP) of the Peninsula Community Foundation created the program in partnership with Lenders for Community Development (LCD). The two organizations serve as co-managing partners, and they have enlisted eight community partners to support the program. These eight partners identify, recruit, and provide support services for the low-income clients who participate in the program. Citibank, as the financial services partner, provides the savings accounts for the participants.

CVP manages the overall strategy of the initiative, tracks milestones and metrics, develops reporting tools, and communicates with investors. It also plays the lead role in developing funding sources for the six-year plan, defining and holding partners accountable for roles and responsibilities, and developing strategies for sustainability (the exit strategy). LCD leads the oversight of day-to-day operations, oversees financial literacy training, and monitors participant account activity and allocation of matched funds. The organizations jointly identify community partner organizations.

As the following dialogue indicates, the success of this alliance arose in large part from careful planning and clear definition of roles and responsibilities for each participating organization. Before launch, the two managing partners spent six months working out the details for each stage of a business plan. Managing and community partners agreed on their specific duties and documented them in a memorandum of understanding and operating agreements, which were signed by all participating organizations.

Because IDAs, like all financial instruments, have some readily measured metrics, progress of individual participants and the nonprofit community partners can be tracked against goals. CVP issues a quarterly report to each community partner and to its investors with updates from the nonprofits on client enrollment, savings patterns, and attainment of asset goals.

Interestingly, while many high-engagement relationships focus on capacity building, in this initiative there has been a strong focus on leveraging the resources and core competency of one nonprofit to support another, rather than simply building the capacity from scratch.

As called for in the original plan, CVP is turning over the management of the Assets for All Alliance to LCD in 2004. As it does so, CVP—which is essentially an unendowed foundation—will lose some of its financial supporters to LCD. Although this could be seen as a conflict, CVP doesn't see it that way. CVP is interested in LCD's success as a proven example of its collaborative work. In fact, CVP is introducing some of its investors to LCD in an effort to develop LCD's funding base.

About the Organizations

The Center for Venture Philanthropy (CVP) was launched in 1999 as a division of Peninsula Community Foundation. It was designed to create an environment in which community donors could collaborate and drive positive change across the Silicon Valley region of California. CVP designs and manages social venture funds, which are pooled investments in four- to six-year plans aimed at addressing key regional issues. Investors work directly with CVP staff and nonprofit leaders to understand issues and engage in a process of joint problem-solving. CVP's first social venture fund, the Assets For All Alliance, has won national recognition for its anti-poverty efforts and leads the country in terms of documented results for Individual Development Account (IDA) programs. The second social venture fund, Raising A Reader, focuses on developing early literacy skills through a take-home book bag program. Environmental Solutions Forum, the newest fund, aims to build the organizational capacity of 15 environmental community-based organizations.

Lenders for Community Development is a community development financial institution that enables low-income individuals, families, and communities to create economic opportunity, build financial stability, and pursue self-sufficiency. In partnership with banks, philanthropic investors, community-based agencies, and other partner organizations, LCD develops financial products and services to channel resources into Silicon Valley communities traditionally underserved by conventional lenders.

LCD serves Santa Clara and San Mateo counties in California and also makes loans on a limited basis in contiguous counties. LCD was incorporated in December 1993 and began lending operations in January 1995. LCD has been certified by the US Department of the Treasury and the State of California as a community development financial institution (CDFI) and is licensed by the California Department of Corporations as a finance lender.

By the Numbers

The Center for Venture Philanthropy of the Peninsula Community Foundation

Funds Granted Annually:
\$1.3 million

Staff Size:
8

Geographic Area of Focus:
San Mateo and Santa Clara counties, CA (Silicon Valley)

Types of Organizations Funded:
Nonprofits addressing issues of poverty, child development, and environmental education

Lenders for Community Development

Year Started:
1993

Annual Operating Budget:
\$2.9 million

Mission Focus:
LCD builds new pathways to increase the flow of capital into low-income communities

Services Provided:
LCD has been certified as a community development financial institution and as such provides a small business micro-loan program, an affordable housing/community facilities loan program, and an Individual Development Account program

Assets for All Alliance

Year Relationship Started:
1999

Expected Length of Relationship:
6 years

Total Dollars Granted to Nonprofit to Date:
\$4.5 million

Funds Committed Over Life of Relationship:
\$5.0 million

Number of Hours of Funder Assistance Provided Annually:
1,000 hours

Dialogue

The following excerpts are from a conversation held in August 2003 at the offices of the Center for Venture Philanthropy/ Peninsula Community Foundation in Menlo Park, California. Participants were:

- **Judith Davila**, Manager of Housing and Community Development, Human Services Agency, San Mateo County Government;
- **Carol Welsh Gray**, Executive Director, Center for Venture Philanthropy;
- **Jane Hills**, Manager of Housing Services, Catholic Charities of Santa Clara County;
- **Margot Rawlins**, Program Manager, Center for Venture Philanthropy;
- **Sonia Delgado Villa**, Program Manager, Lenders For Community Development;
- **Eric Weaver**, Founder & Executive Director, Lenders For Community Development; and
- **Alfred Wise**, Community Wealth Ventures, *moderator*.

Moderator: How did the idea for the Assets For All Alliance come about?

Weaver: At Lenders For Community Development (LCD) our mission positioned us as a lending organization, but we saw ourselves in a broader sense as a community development financial institution. I had just become aware of individual development accounts, or IDAs, and thought they seemed like a very interesting and powerful thing. I had been toying with the idea of looking at that product because we serve as a bridge between low-income people and mainstream financial institutions. We felt like we had expertise in doing the back office and the processing side of things, and I thought maybe this would be something that we could build on. We got some early money from Citibank. I was actually to the point of not being sure if it was a good idea and not knowing just what we were going to do with the money. Essentially there was no way we could have gotten

anything going on any scale given our size and capacity at that time. Right about then, I was at a meeting with Sterling Speirn, president of Peninsula Community Foundation, and IDAs came up.

Welsh Gray: This was in January 1999 and the Corporation for Enterprise Development, which started the IDA movement in this country, was having its first conference in Oakland. Sterling said, "Go look at this big idea. Lenders for Community Development is interested in it, too." So I went.

Weaver: Right. And I had just hired a woman named Anne Stuhldreher as my associate director. She had come from the Ford Foundation where she had been funding IDA programs, and she went to the conference, too.

Welsh Gray: Anne and I met there and became very excited about how IDAs fit both our aspirations.

Weaver: CVP was trying to make a decision about what was going to be its first big social venture fund. Very soon thereafter they called me and said, "We would like to start funding you to really dig into IDAs. Are you interested?"

Welsh Gray: This felt perfect as a central idea to launch a social venture fund. We got together for a meeting within a week after the conference.

Weaver: The two organizations had not done a big project before but had significant knowledge of each other. Sterling and I knew each other very well, and LCD had gotten a couple of small grants from the foundation previously.

Hills: Parallel to this, Eric had also engaged in lots of conversations with Chris, the director of one of our low-income housing development programs. Eric had supplied various loans for apartment renovations, etc., at Catholic Charities. Eric and Chris had previously engaged in a number of conversations about asset development with the poor. Yes, we supply the housing, but how can

those people maintain the housing? And how can they then stop living paycheck to paycheck and really work on developing savings and economic self-sufficiency? The IDAs fit perfectly into those conversations.

Moderator: I understand how you came up with the concept of IDAs being an investment. How did you land on Eric and LCD as the appropriate partner?

Welsh Gray: The choice of LCD occurred quickly and naturally because trust was already there. Eric and Sterling knew of each other's work and respected each other. Anne and I were both newly hired to create and implement new visions for each of our organizations, and we had lots of playing room. We sat down and grappled with what our roles could be if we were going to do something together. What is the expertise at LCD and what is the expertise at CVP and who else do we need at the table? From the very beginning, we recognized that we needed additional partners.

Weaver: From my perspective, it was not like CVP decided, "Okay, let's do IDAs and let's go find out who to do them with." Our two organizations came up with it together. Sterling was interested in the idea and I was interested in the idea, and we crossed paths. At that very moment, he had this brand new division that was going to do something big, and I had a new employee who was very talented and had the time.

Welsh Gray: In those early conversations, we designed a framework for working together that was key to our success today. We established the roles and responsibilities of LCD based on its strengths and defined this new venture philanthropy role that CVP would play. Then we jointly decided who would be the other nonprofit partners. The Assets For All Alliance is composed of organizations from two counties. LCD had deeper knowledge of the players in one county, and we had deeper knowledge of the players in the other.

Moderator: So you have identified a concept and you have the two organizations saying let's figure this out. How did it evolve and how did you choose partners?

Welsh Gray: We formed a steering committee, which was the four of us—Sterling, Eric, Anne, and myself. We designed selection criteria for community partners who would be on the ground, working directly with the low-income client. We looked for good leadership, solid commitment to the idea, and organizations that could add this IDA piece easily to their existing work. We decided how we were going to measure success, and we decided up front that this was an experiment. The IDA concept was a year old in the country, and we did not really know if it was going to work, especially with the special conditions and challenges of Silicon Valley. At that time, we had the fastest growth rate of wealth and a widening gap in homeownership. The cost of housing was going through the roof, and we would be working with very low-income people. Therefore we defined our goals and our measures of success before we chose the community partners.

We wanted then to pilot helping people get into a variety of assets: home ownership, college education, and expanding a business. We were looking at nonprofit partners who could bring to the table the kinds of clients who were seeking those goals. We were looking at cost and how to get maximum benefit per dollar. If we invited an organization to participate that had no involvement or track record working with clients on acquiring these assets, it was going to cost them a lot more to ramp up than if they were already working in case management day-to-day with people of the desired profile. Our choice for partners was driven by definitions of what we were looking for, way before we looked at specific organizations.

Weaver: We looked at capacity and we looked at volume. Not all the partnerships worked out as well.

Moderator: So how many partners did you start with?

Welsh Gray: We started with eight. We have different kinds of partners. The financial partner was Citibank, which we contacted early on because we had heard that Citibank in Chicago had been doing a lot of innovative work with the beginning IDA movement. Because we were asking for changes in the way banks do business, to meet our needs for tracking the clients, we piggybacked on what was happening in Chicago to help us move through early barriers here. In looking at partners for recruiting low-income clients, Catholic Charities was a natural. It is one of the largest players in the region working with people in poverty. When we approached each of the nonprofits, we talked to the executive director about the concept, and we talked with the staff or the head of the particular division about implementation. We made sure that, at all organizational levels, there was buy-in for a long-term relationship.

Moderator: Explain how the roles work.

Weaver: We had managing partners who jointly set the overall policy and strategy. Initially, that was Carol, Sterling, Anne, and me. We ultimately are accountable to our boards, of course, who set the big picture. Then each of the managing partners had specific roles. CVP's role focused on the framework of accountability and making sure that everything was happening throughout the collaborative. Then fundraising was its responsibility, although Catholic Charities actually did a lot of its own fundraising.

Welsh Gray: In fundraising, CVP took the lead in the boat, but we made it clear we expected all to pull the oars. For instance, Catholic Charities saw a way to get quite a large stream of money from the federal government for refugees. We helped Catholic Charities write that grant and deliver the periodic reports of results, but that organization was the responsible party.

Hills: Sometimes there were rules and regulations that were specific to that government money and different from the guidelines set up in the Assets For All Alliance. Funds could not be used for some assets. We had to bring that to the

table and then negotiate how we would operate.

Welsh Gray: We gave more money for the pieces that the government funding stream would not cover so Catholic Charities could maintain a consistent program for all its clients. Alignment in the collaborative was a frequent item of discussion.

Moderator: In terms of your organization, did you know what you were getting into?

Weaver: It has exceeded our wildest dreams as far as effectiveness. I did know that it was going to be a major change for us. To go into something that required raising big bucks—and all of it grants—was a change for us. We knew we were doing something new and different, but it had a real potential to bring more depth to our organization's impact. We were trying to grow just for growth's sake. At five years, we were at the age where we needed to grow a little bit or we might not make it. It had a powerful impact on our whole capacity.

Welsh Gray: We looked around the country at where IDAs had started, and it was clear that it was not a simple launch. We saw that it was going to take a lot of work, and we didn't think we could do it without a strong partner like LCD, either.

Moderator: Oftentimes in this sort of project, capacity building is hiring and staffing. It sounds like you did capacity building by trying to find the right partners that already had that capacity and involving them in the project.

Welsh Gray: Had at least some of the capacity. I would say that there were pieces that everybody had and pieces that they didn't have, and we had to build them. If Catholic Charities said I can do this piece, but that piece is hard, then we would say: "Can LCD do that piece?" or "Can we bring in a consultant to add that piece?"

Weaver: What CVP did, it wasn't like some other cases where the funder says we are going to help you go hire a

development director, or this or that, because you need that. It was more that there is this grand vision, and it all makes sense in terms of roles and responsibilities. It is not capacity in the sense that you don't have the right people and you need people or you need training. It is more that you need coordination and you need someone who can look at the whole picture and keep it moving, especially at the beginning.

Welsh Gray: I think one of the biggest roles we play now, and we played at the beginning, was driving the conversations about the prize. What does the prize look like? Are we still heading straight to the prize versus some detours? Our goal was to pilot this big idea to move people out of poverty—to see what works and what doesn't work, document the lessons, and share them with the field and policy-makers. In early discussions about our exit strategy, all the partners felt that if the IDA approach works, it would need government funding to sustain it. The high cost would probably prohibit the nonprofits from sustaining it on their own. Therefore, our exit strategy was to do our best at influencing policy. Too often policy is set without good research and without

good validation. We bought the database design of the national pilot, the American Dream Project, so that our data would build upon the national story. When the feds became interested in looking at the IDA concept, we applied to become a federal demonstration project.

Sterling was quite adamant initially that we not go after the federal money. He said, "In the middle of this economic boom, we can get money a lot easier than going through all the hoops to get federal funding for a grant that at most could be \$250,000 toward our \$6 million goal." In circling back, though, we realized that if our goal was to educate the field and influence policymakers, then we had to get in bed with government as the best way to have our data influence policy. In reality, we applied for the opportunity to be a central player in national discussions. That participation continues today.

Moderator: If you were to look back four years ago, what are some of the things you would have done differently?

Delgado Villa: Some of the community partners had high staff turnover. When that high turnover plays out, there is a big

transition phase. A leader of one partner organization worked with us throughout the planning stage. He was vested in the whole program and in the IDA movement. Unfortunately, when he left and somebody else came on, it was a real disruption.

Welsh Gray: The nonprofit did well at meeting targets initially, but he was unable to pass the baton and we never recovered there. Also we suffered lots of challenges and frustrations when funders came in with an agenda of: "Well, we will give you money but we want you to start Assets For All Alliance in this neighborhood." We would not have picked the neighborhood as the place to start or we might not have gone into that neighborhood at all because we were aware of the increased risks there. Sometimes we had to work with a particular community partner that the funder wanted us to work with, and we would agree, thinking that we could do it. We knew the weakness of the nonprofit and we thought we could shore it up, but sometimes the weak situation got the best of us. Those relationships didn't always work, and they were a huge drain on our time and staff resources.

On the Relationship

"...it wasn't like some other cases where the funder says we are going to help you go hire a development director, or this or that...It was more that there is this grand vision... It is not capacity in the sense that you don't have the right people and you need people or you need training. It is more that you need coordination and you need someone who can look at the whole picture and keep it moving..." —Weaver

"CVP established a framework where there were frequent opportunities for feedback and input. By choosing partners that both CVP and we respect, we took their input seriously and made changes accordingly. Once we had done that a few times, we built confidence in the process and the team." —Weaver

"Part of the reason why the partnership really works is this continual discussion and a basis of trust and respect for each other." —Rawlins

"Venture philanthropy does not work for all partners. It works for a certain kind of partner who is willing to engage in this dialogue and work through problems and challenges in a very open, frank, respectful manner." —Welsh Gray

"It is not the normal thing when the nonprofit grant recipient is so frank with the funder. I wonder if part of that, at least in our case, was because this was a new project." —Weaver

"We are different from many venture philanthropy models in that we absolutely do not sit on boards of nonprofits or even necessarily meet the board or get into how Eric is running his organization, beyond the specifics of this IDA program. Our relationship is with the management of an initiative, and when it comes to our role, we define what we should be talking about in a memorandum of understanding that updates targets and milestones yearly." —Welsh Gray

Moderator: Now in retrospect, what would you say makes a strong community partner?

Welsh Gray: A strong community partner is an organization that follows through with commitments that are well-aligned with the organizational mission. In our venture philanthropy model, there are operating agreements with each community partner, which CVP formats and writes based on mutual agreement about everything from quarterly milestones to logistics of who does what. Sometimes weaker organizations had repeated failures in follow-through even when LCD and CVP staff had done everything they could to shore up the partner's role, and then we had to walk away from the relationship.

Moderator: Can you go into more detail on how the community partners are involved in the funding?

Rawlins: We provide the community partners with the resources they need to provide case management for the clients. If they had agreed to recruit a hundred clients, they would give us a budget for what they thought it would cost them to recruit and provide support for these clients. We would negotiate based on their organizational realities and a formula based on three types of clients: those who are hard to manage for a variety of reasons, those who require just a little bit of support, and those who should not require any support and should be able to start saving right away.

Moderator: Talk about some of the overarching metrics. How are you measuring for the whole program and how does that get pushed down to the various community partners?

Welsh Gray: The original community partners bet that 75 percent of their clients would acquire their assets after a three-year saving period, if the Assets For All Alliance program was funded and implemented as designed. Therefore, CVP led discussions about setting targets along the way that would indicate progress. We monitor how many low-income clients are meeting their monthly savings goals and

how many dollars are banked toward asset purchase as indicators that we are on track for reaching that 75 percent goal.

Rawlins: To reach that goal, we knew our clients had to save regularly. We defined that initially as meaning making deposits 10 out of 12 months. Then we saw slippage in that target area, and investor-community partner discussions about that slippage led to a new policy that if clients missed that second deposit, they moved to probationary status with a set of intervention steps. We also create reports we call target summaries and send them out to investors and nonprofit partners each quarter. They indicate that Catholic Charities clients are performing this way and San Mateo County clients are performing that way. They provide this wonderful ability for the partners, through our measurement tools, to talk to each other and discuss strategies for improvement.

Welsh Gray: There are 10 years of research around assets, and how, when people own a home in a community, they become vested in that community and develop a sense of self-sufficiency. We looked at that research and asked how we could drive that down into some measurements. It is easier to measure enrollment numbers or saving patterns. That sense of economic self-sufficiency was squishier, so the collaborative looked at what is a proxy for measuring that and came up with the decision to look at reductions in clients' bad debt. Are they just borrowing more to be participating in the program? Or are they really learning the lessons from Sonia and setting up schedules with their caseworkers to reduce their bad debt? With less bad debt and increased saving, you can assume they are developing a form of economic self-sufficiency. Then we got into the issue that if you are going to college, all of these people are taking on debt, but that wasn't negative. So we had to define all of these elements thoroughly. A lot of the discussions over the four years have been on defining data points. We do not want to collect data that are not useful for our discussions and for our tracking of success.

Moderator: As a community partner, how do these metrics work?

Hills: They came about as part of these discussions that we had at investment councils between investors and community partners and when we had monthly partners' meetings. I think it was just part of the ongoing dialogue.

Davila: No policy has ever been a surprise to anybody. It has been discussed at the investment council, it has been discussed at the community partner level, and it has been discussed in the steering committee. By the time we finally implement it, it has gone around the block.

Welsh Gray: Which leads to a really important point. We are not a consensus-driven initiative. We maintain control as a managing partner of the decisions, and we set the policies. But it is called input, input, input, dialogue, dialogue, dialogue. We won't always agree with everybody's opinion, but we try to help them understand when we set the policies.

Here is an example of where we set a policy, which Catholic Charities, for instance, was originally against. Catholic Charities asked if their clients could save money for first and last month's rent or for mobile trailers, which we did not view as appreciating assets. If you own a mobile home it will be less valuable three years from now than it is today. We did not qualify those uses based on our definitions of asset. They were looking from the poverty standpoint; sometimes getting that car or getting a mobile home is the right approach for that client. We were looking at the decision in terms of our original intent: fostering asset-building aligned with the historical research behind IDAs.

Weaver: This is a key issue. CVP was holding the purse strings on the lion's share of the money that came through this. They were comfortable making decisions. Most of them we made together. At the same time, CVP established a framework where there were frequent opportunities for feedback and input. By choosing partners that both CVP and we respect, we took their input seriously and

made changes accordingly. Once we had done that a few times, we built confidence in the process and the team. This was not a case of a funder saying, “Here is some money. Go do this and do it exactly this way.” It was iterative, and the model had built-in mechanisms for people to meet regularly and give feedback.

Moderator: Has this project evolved with the metrics and the feedback mechanisms that you think you would have liked had there not been a power imbalance?

Weaver: Certainly they had some leverage—probably more than any other partner—about policy decisions, although they showed exemplary behavior and did not take advantage of that and were just being very open. CVP is a little different. This isn’t a foundation like the Packard Foundation, which has its money and isn’t out raising more money. CVP has enormous accountability. They are driven by wanting to make it work right, because if it doesn’t, they don’t get to do another fund. So they are going to listen to good ideas. When philanthropists don’t have any accountability, they are free just to pursue their own crackpot ideas and not listen to their grantees. Carol and Margot have to be successful or they are out of a job.

Welsh Gray: Our stake in this is big because each quarter we are putting up publicly, on our website, whether our targets are met or not. We are also raising funds so when we report to investors, we’d better be listening to the troops on the ground or we are going to fail.

Weaver: It is actually a lot closer to the true sort of venture capital model than a classic private foundation that has its endowment set. They are fund managers and they have investors to report to, just like a VC firm. I think that would potentially make them more effective. The very structure of it is going to drive them toward accountability and success more than another type of philanthropic organization.

Rawlins: One of the most powerful tools that we have is target summaries. As

quarterly reports, they keep us in touch with our investors and they also keep us in touch with our partners.

Moderator: How do you see your organization accountable to CVP?

Delgado Villa: Start naming all of the ways. We act as the lead operational partner, but LCD is also a community partner enrolling clients. At LCD, we are responsible for operational needs of the other community partners as well as recruitment of new participants through our small business department. I am accountable to the program goals as well as the goals I set for myself at LCD. Not only are we accountable to CVP, we are also accountable to the funders that it engages.

Welsh Gray: LCD collects a lot of the data from the community partners and turns it in to Margot, and we generate the reports.

Delgado Villa: I am also accountable to our participants and nonprofits to make sure that we provide quality services to them. Since we are a community development financial institution and we have received some funding for the Assets For All Alliance through the CDFI award, we have to track that on an annual basis as well.

Weaver: For some of the community partners, we teach all the money management classes and have day-to-day stuff we have to do. I think both co-managing partners are accountable for the total enrollment goals. We feel accountable for that 80 percent number.

Davila: Our accountability is really around delivering on the idea itself and insuring that it really does work for the low-income folks in our county.

Welsh Gray: San Mateo County government also wears two hats. The county government funds money to the Alliance and is on the ground working with clients. Judi, as an employee of the Human Services Agency, has accountability to the board of supervisors. We have presented reports to them because we want to keep

that funding stream flowing. We are therefore holding government accountable for following through with its own use of the money, you might say. Then we bring an additional carrot by adding dollars to round out the client services, beyond what its restricted government dollars can do.

Moderator: Eric, how has this alliance had an impact on LCD?

Weaver: Well, we were already largely there with using metrics. That is why we were a good fit for this because we were already a very numbers, results-driven organization. We do lending and we are always measuring repayment rates and numbers of loans. Our banks that invest in us want to know the demographics, and we already had all that information. This is a different animal in terms of the intensity of the fundraising required for it. We had the luxury of beginning to launch and manage this huge program without having to really do any of the fundraising. We did not have to raise \$6 million dollars. We raised half a million dollars—not even that much. Now we are moving toward starting to raise those kinds of dollars to keep this thing going because CVP has been very clear from the beginning that it would fund a six-year plan. It is helping us build the capacity to do that. In terms of a lasting impact on us, it is going to get us to another level where we can have the fundraising capacity to do things like this.

Welsh Gray: Our goal for the fund was not focused on sustaining this locally but to find out whether the idea worked and educate the field. Our exit strategy is probably the oldest exit strategy in the foundation world, relying on government for sustainability. In designing the fund, we said that after the final wave of client enrollment (beginning of year four), LCD and the other nonprofits would decide whether they wanted to continue beyond the goals of the Social Venture Fund. If that was the case, then we would have to develop a solid, careful transition over the remaining three years. As we transition into stage two now, we work more and more to position LCD to have the relationship with the funders. That is where we

are right now, where they are taking the lead in the fundraising and we are taking a backseat. We need to make that transition smoothly so it doesn't look like we are walking, which we are not.

Moderator: Were there foundations that may have been interested but didn't want to take a secondary role so they didn't invest up front?

Welsh Gray: Several played a secondary role, but now they are excited because it is such a winning proposition to look center stage. If you want the Alliance to stay big on the national scene, then you must come forward with funding to help out LCD.

Rawlins: The point here is that we need to stay big on the national scene if we are going to get to our exit strategy of informing public policy.

Moderator: Was that an intentional exit strategy?

Welsh Gray: Totally.

Weaver: It was definitely intentional.

Moderator: How much was raised to originally capitalize this Alliance?

Weaver: \$3.2 million.

Welsh Gray: We had a goal of 600 clients enrolled, and then we were doing so well that we changed the goal to 800 clients, and then again to 1,000 clients and a \$6 million budget, all within the six-year funding cycle.

Weaver: The way this thing works is you can stop enrolling people if you realize you don't have the money. We were comfortable enough to put those numbers out there publicly.

Welsh Gray: We raised money from foundations and individual investors, some who were new to philanthropy. I am thinking of one man, a brand new donor-advisor to the foundation, who said he was looking for ideas. We proposed several, and he called me 24 hours later and said he wanted to invest \$200,000 in the Assets For All Alliance because of the CVP

process. He said poverty was not particularly his issue, but he liked that he would know the impact of his philanthropy.

Hills: I know when my colleague and I first came to the investment meetings, we thought, oh, this is going to be interesting because here we are working with people who are extremely poor and homeless. We are going to be meeting captains of industry who are going to want to know what the bottom line is. They are going to want to know the return on their dollar or the return on their investment. I don't think we are really going to match with these guys. It turned out that one of the most successful interactions happened at those investor meetings. The investors were interested in what we had to say. They treated us with a great deal of respect. We felt that those meetings helped us bridge the gap between the rich and the poor. I think in this county especially, Santa Clara County, the space between rich and poor is tremendous. You have these very wealthy people in their gated communities with a chauffeur. The only poor people they might meet may be the gardener.

Weaver: The poverty is not visible to them.

Davila: They did not understand it. You guys would always explain these issues, and we would explain how people tried and what their struggles were, and you could see the investors were just dumbfounded. Now they are really finally understanding what this is all about and some of the struggles.

Hills: It was a matter of understanding that if you work for this amount of money per hour, you don't have health insurance and you don't get paid if you are not at work. If your kids are sick or your tires blow out on your car, you are stuck. What do you do? That might be the reason that you can't save that amount this week. I thought, these guys are not going to be able to understand this, but they really did.

Moderator: As you are transitioning to stage two and the fundraising onus falls more on LCD, how is that transition happening?

On Planning

"In those early conversations, we designed a framework for working together that was key to our success today. We established the roles and responsibilities of LCD based on its strengths and defined this new venture philanthropy role that CVP would play."

—Welsh Gray

"When we approached each of the nonprofits, we talked to the executive director about the concept, and we talked with the staff or the head of the particular division about implementation. We made sure that, at all organizational levels, there was buy-in for a long-term relationship."

—Welsh Gray

"...the agreements are pretty straightforward. It is like you are going to do this and we are going to do this. It puts a structure to it and it sets up accountability."

—Weaver

Weaver: I will explain stage one and stage two. Stage one includes the accounts that CVP raised the money for—basically 1,027 accounts. Because the clients are still saving through December '05, the CVP is still involved in every aspect other than actively seeking new grants for new accounts. It is still generating the reports and helping us hash out issues. Going out on the national stage, it helps us report to future funders, and, behind the scenes, it helps us interact with them. Stage two started this January. Essentially, CVP money funded the first 150 accounts in stage two. That was done on purpose so I could stand up and say we have already raised some money for stage two and we had some momentum. We are trying to do a more modest goal. We would not try to do another 1,000 accounts, but we are trying to do 500.

Moderator: Which requires...?

Weaver: \$3.1 million.

Moderator: What about the fundraising part?

Weaver: The fundraising part is going very well. We have one big funder, The [Charles and Helen] Schwab Foundation, which came in at the end of stage one and has already upped for stage two.

Moderator: That was initially through the Center for Venture Philanthropy?

Welsh Gray: Right.

Moderator: And now?

Weaver: They are going to give a check to LCD. I think fundraising is actually the only area where we had any tension that was even significant or that we just didn't feel comfortable dealing with. We had other tensions, but it was very comfortable dealing with those.

The Schwab Foundation was also concerned about the transition, so we brought in a new senior management person who oversees IDAs and now it frees me up to focus almost exclusively on fundraising.

Moderator: Carol or Margot, were you involved in selecting that person?

Welsh Gray: No. We are different from many venture philanthropy models in that we absolutely do not sit on boards

of nonprofits or even necessarily meet the board or get into how Eric is running his organization, beyond the specifics of this IDA program. Our relationship is with the management of an initiative, and when it comes to our role, we define what we should be talking about in a memorandum of understanding that updates targets and milestones yearly. That is our bible for the funder-nonprofit conversations.

Weaver: Back on the fundraising piece. I would say that we had a lot of discussion about this stage one and stage two thing. How were we going to explain to people the roles of CVP and LCD and how they are shifting? It is inevitably a challenging thing. CVP is so vested in this, and it is hard to pull back from a thing you are so vested in. I keep comparing CVP to a private foundation. A traditional foundation is, of course, interested in its reputation, but you guys are a fundraiser organization so you are very vested in being high profile, getting in front of people and getting your name out there. That is your job. So how can you be true to that while being a good parent to us, putting us forward and letting us shine?

Welsh Gray: Well, sometimes LCD wants to look successful in a stand-alone way to encourage stage two funding directed at it versus CVP. We need them to look successful and they are. At the same time, we have funders that value the fact that we are playing this role, and we don't want them to think we are walking and that this is over. We say we are about results so we need to show people those

results. When our flagship project is so successful, we have to make our role clear or we are out of business. We are constantly focused on the messaging to communicate accurately.

Rawlins: Part of the reason why the partnership really works is this continual discussion and a basis of trust and respect for each other. Eric calls me and leaves a message: "What do you think about so-and-so?" And, if he can't get me when he needs to make a decision, he has to move. I call him back and I say, "I knew you had to move, but . . ."

Weaver: ". . . you screwed up."

Rawlins: "You screwed up" or "This just didn't feel right." He'll say, "Yeah, you're right. It didn't work, so let's try this." There is a basic relationship there that stands us in good stead no matter what the turbulence.

Welsh Gray: Venture philanthropy does not work for all partners. It works for a certain kind of partner who is willing to engage in this dialogue and work through problems and challenges in a very open, frank, respectful manner.

Weaver: It is not the normal thing when the nonprofit grant recipient is so frank with the funder. I wonder if part of that, at least in our case, was because this was a new project. If somebody came to me now and said, "I would like to give you \$2 million or \$6 million dollars for your IDA program. . . ." At this point, I am desperate to keep doing IDAs and I am going

On Outcomes and Evaluations

"We monitor how many low-income clients are meeting their monthly savings goals and how many dollars are banked toward asset purchase as indicators that we are on track for reaching that 75 percent goal."

—Welsh Gray

"We also create reports we call target summaries and send them out to investors and nonprofit partners each quarter....They provide this wonderful ability for the partners, through our measurement tools, to talk to each other and discuss strategies for improvement."

—Rawlins

"A lot of the discussions over the four years have been on defining data points. We do not want to collect data that are not useful for our discussions and for our tracking of success."

—Welsh Gray

"Our stake in this is big because each quarter we are putting up publicly, on our website, whether our targets are met or not. We are also raising funds so when we report to investors, we'd better be listening to the troops on the ground or we are going to fail."

—Welsh Gray

to be a lot more likely to tell them whatever they want to hear. This was new to us and we got to work into this together.

Moderator: How has this evolved versus what you originally envisioned?

Welsh Gray: I am thrilled and exhilarated, frankly, that so many of our original decisions ended up pretty much landing on the mark. That is due to a couple of things. Part of it is luck. It is carefully planned luck. We went fast. We enrolled the most clients in the shortest amount of time of any IDA initiative in the country. There are thousands of IDA programs today, but back then there were 15, and Anne spent hours making calls to capture the initial lessons. For instance, the policy that clients had to be in the program for a certain amount of time before they could draw down money was based on scamming that was taking place elsewhere. Clients were borrowing money and then showing up ready to draw down the match without having learned savings patterns. We made some policies that were absolutely smart and stayed smart because we did our homework and learned from others. Also, we knew a lot about our local communities, the set of nonprofits, and the challenges of going into different neighborhoods. We made some choices to go into some neighborhoods that did not work as well. We actually knew the challenges ahead of time, but sometimes we gambled and we lost. A few nonprofits were not ideal candidates for partnership, but they were the best we could find and we decided to take the calculated risk. We also bet because we could afford to take some risk as long as most of our effort was producing results.

Hills: I also think you picked partners who were experts in their particular field and didn't expect us to work beyond our limits. I know several big, but less successful, IDA groups have told us at conferences that they had to do everything. They had to recruit the clients, do the case management, and then provide the financial literacy piece, and they weren't really capable of doing it all themselves.

Welsh Gray: Our luck was also very much in the timing because we could not have raised the money in a down economy.

Weaver: We walk around patting ourselves on the back at national conferences and we deserve it, but when Sonia and I do presentations, we probably make it sound easier than it is. You just go and raise \$6 million dollars. Everybody just says, "Oh, well."

Moderator: What mistakes have you made?

Weaver: There are some enormously complex issues around the funds flow—whether people use all their money and just forecasting how much money we are going to need. What one account actually costs us from start to finish is something that we still don't know because it is a six-year process and people continue to enroll.

At one point, when everything was going very well, we took our eye off of the ball. Very quickly we went from thinking we had raised way more money than we needed to worrying whether we had enough to do what we had said we were going to do. Zuri Ruiz, our new director of programs, was a McKinsey consultant with an MBA. The first thing she did was to get all of this data into a big hairy spreadsheet and figure it out. The answer was we just had enough for the stage one accounts and to cover the operations costs all the way through. There was not a dime to spare. Fine, but we did not know that when we should have known it.

Rawlins: We struggled with how to collect data about the cost of the program. We started off looking at it one way, and then, as we got into it, we realized that doesn't really make sense, so we changed the way we would measure things. Of course, then we lost all our historical perspective for comparison. We are still struggling with that. We made a fiscal mistake, and I think we are looking back on it as a miscalculation, when we decided to give clients a year beyond the three-year savings plan for purchasing the asset. We extended this offer midstream and did not calculate the fiscal implications,

the payment of case managers and the tracking of accounts, but simply responded to the needs of the clients.

Weaver: After we stop matching their money, they still have another year to use it. The mistake was not costing that out. We were thinking, oh, they will still have a year to get their asset, but we won't have any more cost because we won't be matching them anymore. But, in fact, there are costs. We are still in touch with that person.

Moderator: It seems that the Peninsula Community Foundation has two donor types: those who are writing checks, and that is as far as they want to go, and a handful of people who are choosing to invest in what you are doing because they are interested in higher engagement.

Welsh Gray: It is not necessarily their high engagement. Sometimes they want to touch the product, and other times they want someone monitoring their investment and tracking it and reporting to them.

Moderator: What percent of Peninsula Community Foundation donors are investing in the Center for Venture Philanthropy?

Rawlins: Maybe a fifth or fewer.

Welsh Gray: We have done the numbers and most of PCF's donor-advisors have their favorite charities and really don't want ideas. We try to encourage them to work with us, but a lot of them are already clear about their philanthropy. They often give to their alma maters or causes where they have a personal affiliation. Sometimes donors move through stages of giving, where over time, we are able to connect them from what they know most intimately to issues of poverty or something they haven't experienced.

Moderator: Can you talk about the scalability of the IDA model?

Rawlins: The scalability is really based on government involvement. Of course, it depends on how you define scale. If we are talking about making it available

to those who need it, those who qualify for it, and those who are ready to take advantage of what it has to offer them, scale is limited only by its fundability.

Welsh Gray: But can this happen in another community? Yes. We have been showing other communities how to build this IDA collaborative and its focus on shared responsibility.

Rawlins: Another community foundation is trying to duplicate exactly our IDA approach in Arizona. Part of their problem is that they are dealing with community partners who have programs already up and running. Each nonprofit already has its own processes. The community foundation is now trying to pull them together, and that is a very different thing from starting from scratch and building the alliance. They are running into different problems. They are using a lot of our pieces, particularly the target summary. That is the one piece that other organizations want to use a lot.

Weaver: The process is elegant, but the agreements are pretty straightforward. It is like you are going to do this and we are going to do this. It puts a structure to it and it sets up accountability.

Hills: This whole program has influenced Catholic Charities. We now have the housing services, immigration, refugee, and the employment program all coalesced, and we now have an economic development services position. This effort

has been a springboard for us to get other funding.

Moderator: Eric, any advice to other nonprofit leaders who are thinking of working with high-engagement funders?

Weaver: Just stick to your principles and to your mission. There is always the danger of getting thrown off course by big grants. Grantmaking is actually a good thing and we all know that. The danger could be even higher with this, if the money is multi-year and the funder is very engaged in pushing for things. You have to go into it with a good sense of who you are and what you are trying to accomplish and a focus on your mission. You also have to keep an eye on the relationship and be ready to bail if it isn't good. If you are talking about a multi-year relationship with high engagement, you just have to be ready to walk away from it or to push back.

Of course, that is easy for me to say because we have one that went well. Early on, we all liked each other and shared a common vision and communicated well. I don't know how I would do if I faced someone dangling a lot of money, and I did not get along well with them and did not like the direction they were pushing. I would hope I would have the courage and the principle to push back on it. It is not easy. Money is so hard to find.

On Exit Strategies

“In early discussions about our exit strategy, all the partners felt that if the IDA approach works, it would need government funding to sustain it. The high cost would probably prohibit the nonprofits from sustaining it on their own. Therefore, our exit strategy was to do our best at influencing policy.”
—Welsh Gray

“We had the luxury of beginning to launch and manage this huge program without having to really do any of the fundraising. We did not have to raise \$6 million dollars.... Now we are moving toward starting to raise those kinds of dollars to keep this thing going because CVP has been very clear from the beginning that it

would fund a six-year plan. It is helping us build the capacity to do that.”
—Weaver

“In designing the fund, we said that after the final wave of client enrollment... LCD and the other nonprofits would decide whether they wanted to continue beyond the goals of the Social Venture Fund. If that was the case, then we would have to develop a solid, careful transition over the remaining three years... we work more and more to position LCD to have the relationship with the funders... where they are taking the lead in the fundraising and we are taking a backseat.”
—Welsh Gray

The Participants

Judith Davila is manager of housing and community development, a division of the Human Service Agency, San Mateo County.

Carol Welsh Gray is the founding executive director of the Center for Venture Philanthropy, a division of the Peninsula Community Foundation. Previously, Welsh Gray managed a venture philanthropy model within the 21st Century Education Initiative of Joint Venture: Silicon Valley, a partnership of Silicon Valley business and education that invested in the business plans of public school teams. Welsh Gray championed the founding of Daybreak Shelter for Homeless Youth and has won a number of awards for her community service. Gray has a BA and MS from Stanford University. She was a German Marshall Fellow in England during the summer of 2002.

Jane Hills is manager of housing services at Catholic Charities of Santa Clara County. Hills formerly worked at Catholic Charities in the refugee program.

Margot Rawlins is program manager for the Center for Venture Philanthropy and is responsible for oversight of the Assets For All Alliance Social Venture Fund and the venture van classroom-on-wheels for philanthropists.

Sonia Delgado Villa is the IDA program manager at Lenders for Community Development. Delgado Villa developed the financial literacy training for the Assets For All Alliance clients.

Eric Weaver is founder and executive director of Lenders for Community Development (LCD), a multibank community development corporation in San Jose, California. LCD pools money from 24 member banks to make microloans to small businesses and loans to developers of affordable housing, with a focus on lending in low-income communities. Before starting LCD, he worked in affordable housing development in Washington, DC, and as a relief worker in El Salvador. He has an MBA from Stanford University and an undergraduate degree from Harvard University. Weaver is a founder and former board chair of Net Impact, a nationwide network of MBAs committed to integrating business and social change.

A Special Acknowledgment

Venture Philanthropy Partners (VPP) is fortunate to have the support and counsel of our stakeholders. VPP's work is squarely grounded in that of our investment partners (the community-based nonprofits in which we invest growth capital and strategic assistance), for our measure of success can only be judged in terms of how well they succeed in achieving their aspirations. We are fortunate to be able to enter into investment partnerships with outstanding organizations with excellent leadership. Critical to our providing strategic assistance to our investment partners is our team of seasoned executives with extensive experience in education, child development, government, finance, business, and investment, who share a common vision to improve the lives of children.

This special acknowledgment is directed at those who represent the extended VPP team—our investors, board of directors, and advisors—to acknowledge their investment of time and money in VPP and its mission; to thank them for their belief and confidence in what we seek to achieve; and to recognize them for their support, which, for most, started even before the formation of VPP in the summer of 2000. To all of those listed below, our sincerest thanks.

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Venture Philanthropy Partners, Inc.

Venture Philanthropy Partners (VPP) is a nonprofit philanthropic investment organization that provides growth capital and strategic assistance to build, strengthen, and scale high potential community-based organizations serving the core developmental, learning, and educational needs of children of low-income families in the National Capital Region.

VPP was created by the Morino Institute in partnership with Community Wealth Ventures; the Community Foundation for the National Capital Region; and a group of business leaders headed by Raul Fernandez, Chairman and CEO of ObjectVideo and founder of Proxicom, Mark Warner, who became Governor of Virginia in 2002, and Mario Morino.

Community Wealth Ventures, Inc.

Community Wealth Ventures is a consulting firm that assists in all aspects of entrepreneurial wealth creation for the social sector. Community Wealth Ventures provides consulting services for a broad range of nonprofit, corporate, and foundation clients.



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