

# Venture Philanthropy 2002

Advancing Nonprofit Performance Through High-Engagement Grantmaking

Lessons, essays, and a survey of venture philanthropy funds

**venture philanthropy partners**

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investing in social change

Prepared by Community Wealth Ventures, Inc.





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## Introduction

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Over the past few years, the term “venture philanthropy” has become widely used in the nonprofit, philanthropic, and financial sectors. In the broadest sense, venture philanthropy is a relatively new, largely unproven, and yet potentially powerful movement in grantmaking that seeks to adapt strategic investment techniques to the culture and needs of the nonprofit sector and to serve as a complement to more-established philanthropic models.

Venture philanthropy efforts often share the following important characteristics:

- They provide not only financial resources but also management assistance and other tools that for-profit executives have come to rely upon.
- They feature active, involved partnerships between the grantmaker and the grantee rather than just a funding relationship.
- Their grants cover a long time period, usually more than three years.
- They focus on helping to build the organizational capacity of nonprofits, not on the development of new programs.
- They help nonprofits establish and track outcomes and use this information as a basis for assessing the progress of their investments.

Despite these common elements, the term “venture philanthropy” will never acquire the sanctioned specificity of a label like “organic produce.” Different organizations will always use the term in different ways. And, for a range of philosophical reasons, several groups have decided not to use the term “venture philanthropy” to describe their approach even when others probably would.

Therefore, in this report we will use the term “venture philanthropy” more sparingly than we did in our previous landscaping surveys. When describing the experiences of various organizations, we will use the term when these organizations use it themselves. But in most instances, we favor an even more expansive term, “high-engagement grantmaking,” which comfortably embraces the full range of philanthropic innovations profiled in this report.

Our goal for this report has nothing to do with choosing or narrowing definitions. Our goal is to advance the burgeoning field of high-engagement grantmaking in all its many forms. We hope to do that by identifying useful experiences, helping nonprofit leaders understand how they can approach and succeed in high-engagement partnerships, and sharing knowledge with the broader philanthropic community through the voices of those who are leading the way.

To help achieve these goals, the report is broken down into five main sections:

1. **Perspective: “Venture Philanthropy: Three Yards and a Cloud of Dust.”** This essay describes the current landscape of the field and offers observations on opportunities and new challenges facing practitioners and recipients.
2. **Essays on High-Engagement Grantmaking.** We are fortunate to feature the insights of leaders who have seen high-engagement grantmaking from different vantage points, including those of grantmaker, nonprofit partner, and corporate supporter.
3. **High-Engagement Grantmaker Survey Results and Profiles.** This section features an overview of the results of a survey of high-engagement grantmakers across the country, as well as profiles of the organizations surveyed.

4. **International High-Engagement Grantmaker Profiles.** As the number of international funds has grown, we have grouped these funds separately to allow for better perspective on the challenges of applying high-engagement practices around the world.
5. **Brief Profiles of Organizations Related to High-Engagement Grantmaking.** We have included a selection of organizations that, though not practicing high-engagement grantmaking, have experience and lessons that may prove useful to practitioners in the field.

Taken together, the various elements of this report illustrate that the field of high-engagement grantmaking has continued to grow and mature over the past year. We have seen the birth of ambitious new funds, an expansion of the capacity of existing funds, and a growing number of funds that are beginning to see signs of progress in their social investments. The average size of fund staffs has grown more than 20 percent since last year, and the number of states hosting a high-engagement fund has risen from 16 to 18.

These signs that high-engagement grantmaking is gaining momentum are even more welcome and relevant in our post-September 11 world. With government budgets for social services at risk of shrinking in the face of enormous new homeland security needs, there has never been a more important time for grantmakers to work in close partnership with their community-based grantees to help them be as effective and resourceful as possible. To borrow from management guru Peter Drucker, now is the time to do what it takes to support nonprofit organizations in their quest to do the right things, not just to do things right. We hope that the field of high-engagement grantmaking can play an increasingly significant role in filling this important societal need.

*Venture Philanthropy Partners and Community Wealth Ventures would like to extend our heartfelt thanks to the staff members of the organizations that are profiled in this report for contributing their time and invaluable insights. Their reflections on high-engagement grantmaking have made this report possible.*

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

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

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

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

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

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

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

\* \* \*

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

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

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

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

\* \* \*

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

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

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

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

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

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

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

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

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

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

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

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

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

## Essays on High-Engagement Grantmaking

As high-engagement grantmaking continues to evolve and take its place in what Jed Emerson and Paul Shoemaker call the “philanthropic ecosystem,” we are seeing an increasing number of valuable lessons and experiences emerge from the field. To that end, we are pleased to present the following essays from leaders and practitioners who have played a major role in developing different models of high-engagement grantmaking.

We are grateful to each of these exceptionally busy individuals for taking the time to advance this dialogue with their insights.

These essays follow:

- **“The Eugene and Agnes E. Meyer Foundation: Sixty Years of Engaged Philanthropy in the Greater Washington Region,”** by Julie L. Rogers, president of the Eugene and Agnes E. Meyer Foundation
- **“Venture Philanthropy: A Report From the Front Lines,”** by Eric Schwarz, co-founder and president of Citizen Schools, Inc.
- **“Evolving Venture Philanthropy: SVP’s Lessons and Self-Reflection,”** by Paul Shoemaker, executive director of Social Venture Partners
- **“Funders, Thinkers, and Doers: Successful Investing in Nonprofit Effectiveness,”** by Hildy J. Simmons, managing director and head of the Global Foundations Group at J.P. Morgan Chase
- **“A Lasting Partnership for Change,”** by Jeffrey Swartz, president and chief executive officer of The Timberland Company
- **“REDF: Reflections on Five Years of Venture Philanthropy Implementation,”** by Melinda Tuan, managing director of The Roberts Enterprise Development Fund





Julie L. Rogers is president of the Eugene and Agnes E. Meyer Foundation, which awards over \$6 million annually to Washington, DC, metropolitan area nonprofit organizations that are working to build healthy communities through health, education, neighborhood development, justice, and arts programs. The foundation also operates the Nonprofit Sector Advancement Fund, which runs programs to promote the effectiveness of the foundation's grantees and strengthen the nonprofit sector. Ms. Rogers was the founding chair (1992-1995) of the Washington Regional Association of Grantmakers and continues to serve on its board. She also founded two major philanthropic collaboratives: the Washington AIDS Partnership and the Community Development Support Collaborative, created in collaboration with the Fannie Mae Foundation. She is a board member and vice-chair of the Forum of Regional Associations of Grantmakers, has served on the board of directors of the Foundation Center (1991-2000), and has served on the membership and annual conference committees of the Council on Foundations. She is a director and serves on the executive committee of both the Greater Washington Board of Trade and the Federal City Council. Ms. Rogers also serves on the boards of the DC College Access Program, Venture Philanthropy Partners, and the Langley School in McLean, Virginia. She serves on the advisory committee of the DC Local Initiatives Support Corporation (LISC) and is a member of the Washington Women's Forum.

She received a B.A. from Duke University and an M.A. in Teaching from George Washington University, where she also did doctoral work in education.

## The Eugene and Agnes E. Meyer Foundation: Sixty Years of Engaged Philanthropy in the Greater Washington Region

by Julie L. Rogers

What does it take to “get engaged”? This question is driving philanthropic organizations of all stripes to rethink their assumptions, reorient their missions, and recast their relationships with the organizations and the initiatives they support. At the Eugene and Agnes E. Meyer Foundation, it is a question we have asked ourselves and others throughout our 60-year history.

### The Essential Elements of Engagement

In Meyer's view, getting engaged with our nonprofit partners and the larger community in which they operate requires us to do the following:

- **Understand “nonprofitness”** and the unique roles that nonprofits play in our society. In the July 2001 issue of *The Nonprofit Quarterly*, thinkers such as Paul Light of The Brookings Institution and Jon Pratt of the Minnesota Council of Nonprofits remind us that we are only beginning to build the theoretical base for understanding what drives nonprofit effectiveness.
- **Adopt a holistic view** of the organizations we support. The key is to understand that effective programs and organizational capacity are inseparable—you can't have one without the other.
- **Stick with it.** Engagement, by its very definition, means being involved with an organization over time and through different life cycles, including the messy ones. It means rejecting the “hero today, zero tomorrow” mentality when things go less than smoothly and helping an organization over the rough spots so it is “built to last.”
- **Invest in the nonprofit “ecosystem.”** Nonprofits seldom work alone, and they flourish when supported by strong colleague organizations, nonprofit associations, and rich sources of management and technical assistance. The challenge for philanthropic organizations is to do whatever we can to strengthen critical parts of the nonprofit ecology—both national and regional—based on the belief that isolation kills even the best-capitalized organization.
- **Look at yourself.** Engagement means looking both outward and inward. All of us in the philanthropic community need to become as engaged in improving our own effectiveness as we are in improving the effectiveness of others. More specifically, we need to take a hard look at our own operations and seek honest feedback about our work from our community and our nonprofit partners.

The Meyer Foundation sees engaged philanthropy as including a broad spectrum of activities—from management-assistance grants and cash-flow loans to technology circuit riders and nurturing productive and respectful relationships with our nonprofit community partners, among other efforts.

The Meyer Foundation believes that the term “engaged philanthropy” refers not just to a funder's relationships with its grantees but also to its engagement with the larger community. In doing our work, we pay heed to the power of place, the need for a regional perspective, and the web of connections that is required to develop and sustain nonprofit leaders and organizations over time. We keep in mind the fact that engagement is a marathon, not a sprint.

### The Meyer Mission: How We Engage

One of the Washington area's oldest and largest private grantmaking foundations, the Meyer Foundation awarded over \$7 million last year to Washington-area nonprofits. The Meyer mission is to work to "develop Greater Washington as a community by supporting capable, community-based nonprofit organizations that foster the well-being of all people in the region." We accomplish our work by:

- Identifying visionary and talented nonprofit leaders;
- Making early and strategic investments in nonprofit organizations;
- Strengthening the organizational capacity of nonprofits in the region;
- Promoting a strong and influential nonprofit sector;
- Building partnerships to foster the sector's work; and
- Serving as a resource to other donors who want to make effective charitable investments in the region.

Meyer's strategies could just as easily be embraced—and often are—by venture funders and others who view engagement as the cornerstone of successful philanthropy today. The challenge now is to "widen the circle" so that engagement strategies define how philanthropy is done for years to come.

### Taking Engagement to a New Level

Now more than ever, Meyer understands that engaged philanthropy requires strong partnerships with other funders. The Fannie Mae Foundation, for example, has been a valued partner in a number of collaborative ventures over the past decade to increase the effectiveness of our individual grantmaking efforts. Currently, Fannie Mae and Meyer are working on a multiyear project to build the capacity of nonprofits to develop sustainable revenue streams, and we collaborate closely on other peer learning projects.

The Meyer Foundation also has forged relationships with colleagues newer to the field. We work with the webMethods Foundation by sharing our perspectives on potentially investment-worthy organizations and by involving our program officers in mentoring webMethods employees who are reviewing first-time applications for funding.

Meyer is pleased to be working closely with Venture Philanthropy Partners (VPP). In addition to my service on the VPP board, Meyer's program staff is forming strong working relationships with VPP program partners. We are sharing what we have learned over many years of working with nonprofit leaders in the Greater Washington area—leaders in whom VPP has taken an interest. And we welcome the relationship of mutual respect, trust, and learning that has developed between our organizations, which will ultimately benefit the community at large.

Meyer's partnerships with VPP and others give life to the idea that engaged philanthropy is about more than developing stronger organizations; it is also about developing a stronger nonprofit sector and a stronger community and civil society. In the end, engaged philanthropy will work only if philanthropic organizations engage with one another. Whatever our particular approach, we need to share knowledge about individual organizations, about our community, about the nonprofit ecology, and about what works and what doesn't in our shared effort to build organizations that last.



Eric Schwarz is president and co-founder of Citizen Schools, Inc., a national model after-school and summer initiative that was founded in Boston in 1995. Citizen Schools seeks to revolutionize how children spend their out-of-school time and has been cited as a national quality leader by a number of organizations, including the American Business Collaborative, The Benton Foundation's Connect For Kids Campaign, the Council of Chief State School Officers, Demos, the Mott Foundation, and the National Institute for Out of School Time.

Prior to founding Citizen Schools, Mr. Schwarz worked for five years at City Year, where he served as vice president for organizational development and, later, as executive director of City Year Boston. After leaving City Year, Mr. Schwarz served for one year as a Public Service Fellow at Harvard's John F. Kennedy School of Government and as a consultant to AmeriCorps. He worked for five years as a daily newspaper reporter, earning two national journalism awards and a nomination for a Pulitzer Prize.

Mr. Schwarz is a graduate of the University of Vermont and holds a master's degree from the Harvard University Graduate School of Education. He has served on the boards of several nonprofits, including Summerbridge National, The Harvard Outward Bound Project, Teens as Community Resources, and First Night. In February 2000, he was named one of Boston's Ten Outstanding Young Leaders by the Jaycees.

## Venture Philanthropy: A Report From the Front Lines

by Eric Schwarz

Having experienced the tremendous benefit to Citizen Schools of “venture” and “effective” philanthropy, I sometimes wonder why I keep hearing about Council on Foundations workshops with titles like: “Venture Philanthropy: The Raging Debate.” Why is venture philanthropy so controversial?

What I've concluded is that most people agree with the substance of venture philanthropy—grantmaking that is long-term, large, linked to performance, and combined with strategic noncash assistance—but that many people object to the symbolism of venture philanthropy.

I can understand why. As a field, venture philanthropy has allowed itself to be associated with the idea that the private sector is essentially better than the nonprofit sector—better at delivering value to its customers—and this idea is both flawed and highly offensive to many of the people venture philanthropists seek to help and whose help they seek to enlist. However, the more important point is that beyond the symbolism, the substance of venture philanthropy is strong. Venture philanthropy takes the dreams of nonprofit leaders seriously and helps organizations develop the organizational capacity and skills to reach those dreams, or at least make steady progress toward them. From the nonprofit leader's perspective, I can't imagine wanting to grow in scale, scope, quality, or all of the above and preferring “traditional” philanthropy over venture philanthropy.

The experience of Citizen Schools is illustrative. We're seven years old, and we run a network of after-school and summer educational programs based on an apprenticeship model of rigorous hands-on learning. We believe out-of-school time represents the greatest untapped opportunity for improving the education of children and strengthening communities, and therefore we want to help catalyze a much better and bigger after-school sector. For almost two years, we've worked with New Profit Inc. (NPI) and The Edna McConnell Clark Foundation (EMCF) to plan our work and work our plan. The work has been intense—even tense at times—and it's allowed us to draw a few clear conclusions:

1. Venture philanthropy has worked for us—big time. The clarity of our vision, tightness of our action plan, and power of our evaluation metrics are demonstrably greater than two years ago—and greater than they would have been without NPI and EMCF. In 18 months, we've more than doubled in size while improving quality and starting to replicate nationally. We're serving twice as many children and serving them better. Most important, we're building the capacity to continue to grow, improve, and creatively impact the field. Our venture partners trained us to use tools like the Balanced Scorecard (BSC) and introduced us to—and in several cases paid for—experts in the fields of evaluation, board development, technology, and business planning. They also provided me with an executive coach. In general, they motivated us to tighten up our strategic plan several turns more than we otherwise would have. They provided \$3.75 million toward a \$25 million, four-year growth plan—less than 20 percent of the total but vitally important to our momentum and ultimate success.
2. Many of the basic ideas of venture philanthropy—fewer, bigger grants; multiyear funding; support for the organization's core rather than new programs; and a tough-minded concentration on results—are in the ascendancy across the philanthropic sector, and venture philanthropy champions have accelerated this positive trend. The Boston Foundation, the nation's oldest community foundation, is moving strongly in this direction as are other new and old foundations, individuals, and even a few corporate foundations. (Ironically, corporate foundations have been the slowest to adopt the venture philanthropy model.)

3. The venture philanthropists we've worked with and talked with are thinking carefully about how to leverage public funding and plan for their eventual exit. This is important because a criticism I've heard from "traditional" philanthropists is that venture philanthropists are naïve or oblivious to the role of government and are likely to grow and then abandon their pet nonprofits. Time will tell. But my strong impression is that NPI and EMCF will bring great resources and creativity to our efforts to stimulate public investment of a type that will help sustain Citizen Schools and other organizations in the future.
4. The nonfinancial assistance of our venture philanthropy partners has been extremely significant and helpful, despite limitations due to the fact that they have been scaling up themselves and have therefore been stretched thin. The three most helpful things we've been provided are:
  - The original help from NPI and EMCF leaders and from consultants at Monitor Consulting (an NPI partner) in tightening our "Theory of Change" (at the individual child and field level) and our evaluation system.
  - Executives from Monitor and NPI available for CEO coaching and facilitation of leadership team and board meetings and retreats.
  - Tools such as the Balanced Scorecard and hands-on consulting help to maximize our use of them. Our venture philanthropists introduced us to the BSC and a simple quarterly action-planning tool that have become important parts of planning and working at Citizen Schools.
5. It's too early to say if venture philanthropy is succeeding in one of its central goals—referring more private donors and decreasing the time spent by senior management on fundraising. When we began our work with NPI and EMCF, I had this idea—probably quixotic—that fundraising would decline from 60 percent of my time to 40 percent or even less. It hasn't, though we are raising more money than ever before, due in large part to our stronger business plan.

Venture philanthropy has been great for Citizen Schools, and I feel strongly that its basic precepts would help almost any nonprofit organization that is seeking to grow and become more effective.

So why is venture philanthropy so controversial? Partly because it's challenging the status quo to do better, but also because it is too often cloaked in a blanket of for-profit superiority that lacks historical perspective and discounts what is most challenging and wonderful about the nonprofit sector—the sector's focus on changing outcomes for the hardest-to-reach children and adults.

For much of the heady 1990s, the rhetoric at some conferences and workshops seemed to imply that simply unleashing the metrics, methods, and talent pool of the private sector would end our problems of poverty and poor schools. Yes, the private sector has a lot to teach the nonprofit sector. But the private sector has a lot to learn as well about delivering better outcomes for customers. Think about it. At Citizen Schools we're trying to change the performance of our customers—children—in vital skill areas: helping make them better writers, better critical thinkers, and more likely to attend college. When is the last time anyone asked Reebok or Nike if its shoes actually make anyone jump higher or run faster?

Venture philanthropy has the potential to accelerate positive social change by helping to grow more effective social change organizations. Increasing numbers of philanthropists agree with the substance of venture philanthropy. Now, let's shift the focus from symbolism to substance and leave the "raging debate" behind.



Paul Shoemaker is the executive director of Social Venture Partners, a Seattle non-profit focused on children, education, and the environment. Prior to 1998, Mr. Shoemaker acted as the group manager for worldwide operations of the Microsoft Corporation, implementing Microsoft end user direct billing solutions as well as other business planning and development. At Microsoft, he also developed a group of 22 direct marketing professionals and implemented a direct-marketing infrastructure.

During the 1980s, Mr. Shoemaker worked as the product manager at Nestlé USA in Glendale, California. He has served on the boards of the Children's Alliance in Seattle and Treepeople in Los Angeles. Mr. Shoemaker holds an M.B.A. in Marketing and Finance from the University of Texas and a B.B.A. in Accounting from Iowa State University.

## Evolving Venture Philanthropy: SVP's Lessons and Self-Reflection

by Paul Shoemaker

In her book *Leadership and the New Science*, Meg Wheatley highlights one of chemistry's paradoxical truths: change and disorder can be the source of new order and progress. Change and iteration create new and better structures, and when a system lets go of its present form, it can re-emerge in a form better suited to its present environment. If any sector of the philanthropic funding community should be open to such a theory of science, learning, and self-examination, surely it is venture philanthropists. With that spirit in mind, I offer up our Letterman-like top 10 list of lessons learned and pitfalls exposed during the first four years of Social Venture Partners ([www.svpseattle.org](http://www.svpseattle.org)).

1. **"Fit" Is Key.** The concept of "fit" means: does the funder really understand the investee's mission? Does the nonprofit truly understand, need, and embrace this kind of relationship? Will both parties do what it takes to make this work? Without a good fit between the two organizations, don't even start. We have also found that two point people—one from the investee and one from the funder (from SVP's side we call this person a "lead partner")—are critical points of connection in the model, the fulcrums on which the model balances.
2. **Getting Engaged, Getting Married.** Jed Emerson, formerly of The Roberts Enterprise Development Fund, coined this metaphor. The first year is about building trust, learning about each other, and accomplishing projects together. This process helps to show that each party can deliver, and it's about the nonprofit being able to talk about "broken parts" with the funder. In the initial stages, the funder's responsibility is to make itself transparent and to meet the investee's needs. We must explain the venture philanthropy model: how it works, how the funder intends to add value, and how communication will occur. All of this takes time to evolve naturally.
3. **Sticking to Your Knitting.** A venture philanthropy funder brings business skills and capacity-building expertise, not knowledge about social program delivery or mission definition. It is the merging (not excessive overlapping) of those two sets of skills and experience that can lead to powerful collaborations. Clarity about which party plays what role is essential to building a solid relationship.
4. **Push Back.** An undeniable power imbalance between funder and nonprofit does exist, and it must be acknowledged. If this type of relationship is to succeed, the nonprofit must have a feedback loop to the funder and must be able to talk about ineffective assistance. We had one executive director who recently said, "We are not getting what we need from your lead partner," and we made a change.
5. **Moments of Honesty.** Moments of deep honesty show that the relationship is advancing. A year ago, one of our executive directors came to us and said, "You know, the budget numbers I gave you in my proposal were pretty shaky. My accounting system is broken." Because we believe in the organization's social mission and it has clear outcomes, we felt this was a moment of opportunity to invest more deeply in that organization's infrastructure. Often these moments of stark honesty (or lack thereof) signal that a relationship is ready to flourish (or not).
6. **Letting the Money Move.** Often, the investee will come to us and explain that its needs or funding sources have evolved. Its leaders will ask to move our grant money around for a different need (albeit one consistent with the original intent of the grant). We have almost always said yes. Repeatedly, nonprofits have told us this "flexibility" of funding and the ability to focus it on operational needs have been key benefits of the venture philanthropy approach.

7. **Get Serious and Strategic.** If this is the “business” we are in, we must be strategic about how we do the work. Pairing up the right volunteer, staff member, or consultant to work with an investee is only an initial step. Are there cross-cutting needs that can be more effectively addressed by working with multiple investees as a group versus one at a time? How is the funder archiving its best practices and knowledge base so that it builds institutional skills and constantly improves? Does the funder have a culture of self-examination that will enable it to expose flaws and constantly improve its assistance to the nonprofits?
8. **Banks and Venture Capitalists.** A key to adding value is knowing your core competencies. Venture philanthropy is not the right approach for every funder or for every nonprofit. In the private sector, banks (analogous to foundations) have existed for centuries. Over the past 10 years, venture capitalists (analogous to venture philanthropists) sprang up in response to an unmet need. Venture capitalists focus on emerging organizations (analogous to entrepreneurial nonprofits) that need not only money but also valuable expertise and support in building their organization’s infrastructure. Banks don’t focus on capacity-building as directly or intensely as venture capitalists do. When start-ups mature, they often transition from needing venture capital money to seeking more institutional sources of working capital like banks. Foundations and venture philanthropists need to coexist and work with each other just as banks and venture capitalists do.
9. **Measuring Means and Ends.** Like all funders, we know the measures for nonprofit outcomes are not as black and white as earnings per share. But that doesn’t mean we should abandon measurement. SVP has chosen to measure two areas: the means and the ends. Infrastructure, capacity, and organization-building—these are the means through which a nonprofit executes its mission. The ends are the ultimate behavioral, academic, and social outcomes being achieved by the nonprofit’s clients. The combination of these outcomes paints a more complete picture of a nonprofit’s success.
10. **Self-Examination.** Not only are the nonprofit’s outcomes under the microscope, but the funder’s should be as well. The venture philanthropy funder must constantly look inward and hold itself accountable to its investees and to the community. That means an ongoing self-analysis and search for how to get better.

You don’t have to be a rocket scientist to understand how powerful the forces of chemistry are in nature. This article has tried to expose similar opportunities for creative, positive adaptation and evolution in the emerging field of venture philanthropy. Venture philanthropy is not the right approach for every funder or nonprofit, but if all elements come together, it can lead to a powerful opportunity to improve the quality of life in the communities in which we live.

*Note: A similar piece appeared earlier this year in Responsive Philanthropy, the quarterly publication of the National Committee for Responsive Philanthropy ([www.ncrp.org](http://www.ncrp.org)) and is reprinted in this form with NCRP’s permission.*



Hildy J. Simmons is a managing director and head of the Global Foundations Group at J.P. Morgan Chase. She oversees the grantmaking of more than 45 foundations of which Morgan serves as a trustee or for which it has other fiduciary and advisory roles. In 2001, the combined giving for these foundations exceeded \$140 million. From 1990 to 2001, Ms. Simmons was also responsible for the firm's corporate philanthropy program.

Prior to joining Morgan in 1986, Ms. Simmons served as the program director of the Norman Foundation. She held a variety of positions in New York City and State government between 1971 and 1982, primarily in the field of criminal justice. A former New York City Urban Fellow, Ms. Simmons has a B.A. from Lake Erie College and an M.P.A. from Harvard University's John F. Kennedy School of Government. She is a former president of the New York Regional Association of Grantmakers. She serves on the boards of the J.P. Morgan Chase Foundation, the Taconic Foundation, and the Lewis T. Preston Education Program for Girls.

## Funders, Thinkers, and Doers: Successful Investing in Nonprofit Effectiveness

by Hildy J. Simmons

As most donors know, giving away money well is hard work. Whether conceiving and developing a philanthropic program or managing one that is inherited from a family member, wise donors endeavor to use charitable resources in a manner that has a positive impact on their fields of interest. Much has been written in recent years about new approaches to philanthropy, often pitting the notion of new "venture" philanthropy against a seemingly somewhat muddled, old-style approach. The terms of the discussion are evolving: "high-engagement" is replacing "venture" and topics such as capacity-building and measurements have taken on new importance. The rhetoric and debate can be helpful in advancing the field, but I would posit that there is no one "true path" to conceiving, developing, managing, or operating a successful philanthropic program.

Consider that this world is divided into funders, thinkers, and doers. These categories are not necessarily mutually exclusive, but it's a good idea to understand one's primary place in this mix and to act accordingly and responsibly. In exploring these roles a bit further, I hope to make the case for providing operating support, often considered to be the least interesting type of grantmaking. I do this because much of the nonprofit sector is severely undercapitalized, and until donors fundamentally address this issue substantively, rather than semantically, the desire to achieve "high impact," accomplish "going to scale," be innovative, and/or set new directions will continue without resolution.

Frankly, no matter how much you have to give, it's never enough. You simply can't do everything. Philanthropy is an investment in human capital, but similar to investing financial capital, the wise funder is strategic, has clear objectives, is comfortable with some amount of risk, and looks to leverage resources in a way to maximize return over the short and long term. Funders may have ideas about resource allocation—areas of substantial interest or concern—but they are also looking for "investment" opportunities. For example, they may seek to support new ways to address long-standing social problems, or they may believe it is important that certain nonprofit institutions—libraries, museums, universities, youth agencies, settlement houses—are able to continue to provide services into the future. They also may be interested in changing public opinion or behavior. Doing this work well requires a mission, an organizational framework, clear guidelines, and an operating structure understandable and accessible both to donors and recipients.

Before initiating a new program, the wise funder conducts market research. With hundreds of thousands of nonprofits in the United States alone, it's likely that one or more organizations exist with similar objectives. It is also highly likely that other donors exist with similar interests. There are lessons to learn and experiences to share through such an effort. Who else is doing this work, whom are they serving, how are they supported or funded, what is the geographic reach, and do they have the capacity to do more are all questions to ask before initiating something new. Sometimes this analysis leads to the identification of what one of our clients refers to as the "uncrowded beach"—a program, service, or policy gap that is not being addressed and an opportunity to do so. More often, this analysis identifies a variety of organizations engaged in the work but often limited by any number of factors: geography, operational capacity, physical infrastructure, and inflexible or inadequate funding streams, to cite but a few.

Whatever the outcome of the research, the thinker comes into play since simply having the resources to pay for something is insufficient to get the job done. The thinker role might involve an assessment of how best to support or enhance existing work in a manner consistent with the donor's objectives and resources, or it may require conceiving a new approach to a problem. Sometimes it involves having the wisdom and wherewithal

to connect the dots between ongoing efforts that, but for the research and insight identified by the donor's interest, might have continued to operate in ignorance of or independent from each other. The insight resulting from the research might facilitate new ways of leveraging existing resources. In such a case, the connections may be as important as the funding. Donors clearly have more than money to give, and when and where possible they should be urged to do so. The wise donor, however, should first and foremost be a listener. Understanding and being responsive to the real organizational needs is essential if the funding process is to have true value.

While ideas and shared experiences are often enormously helpful and illuminating, the execution of a good idea is not the same thing as having had it. I have always maintained in all the grantmaking we have been involved with that we support people, not programs. At the end of the day, the best ideas and concepts are simply ideas unless they also have good leadership and capable people to turn the idea into reality. Here's where we come to the doers. Whether managing the execution of their own ideas and responses to various social issues or serving as the current stewards for a concept, organization, or vision developed by someone else, it is the human capital applied to the work that merits the philanthropic investment. Leadership counts for a considerable amount, but beyond leadership, as any successful businessperson knows, an organization's human capital is its most important resource. The ability to attract and retain quality personnel is critical. While mission and charismatic leadership may attract people, reasonable compensation and decent working conditions make it possible to continue to do the work over the long haul. It's clear from the number of existing organizations that there are lots of doers. They may not all be effective, but those that are should be recognized, respected, and supported.

And so I return to the issue of operating support. Equity investments in corporations are not restricted to particular aspects of a company's business. A successful equity investor assesses the capabilities of the management, the company's position within its market, the environment in which it operates, and its strategy for accomplishing its objectives before making an investment. Once the investment is made, however, management decides how to allocate the capital. Donors need to remember this when making funding determinations. A funder may well want an organization to create a new program, take on a new initiative, or expand geographically, and the organization may be willing to do so in the hopes of securing support. Restricting funding without adequately providing for the ongoing costs of this additional work and without acknowledging the overall impact it has on the organization ignores the reality of what a program really costs in financial and human terms.

It should come as no surprise that organizations fail to acknowledge fully these costs for fear of increasing budgets and alienating donors. Regrettably, donors often don't ask about these costs since funding programs seems so much more engaging than making sure the organization can pay its rent, upgrade its computers, or provide reasonable wages and benefits to staff. The professional grantmaking field exacerbates this problem. Foundation staff often find it more interesting to be part of creating something new than simply to recommend those same old boring grants year after year. Program staff who are perceived as creative or engaged in innovative grantmaking are recognized by their peers in many ways. I've yet to see an award for the funder providing the most sustained operating support. Yet, ask organizations what they most need, and operating support will top the list.

If we hope to ensure the long-term viability of our nonprofit beneficiaries, we need to speak openly of their ongoing financial needs, not in the context of one-, two-, or three-year grants, but over many years. Chasing dollars through new programs when the old ones aren't adequately funded makes no sense for an organization. Core infrastructure

support—allowing for the planning, thinking, ongoing maintenance, and staff development necessary to operate an efficient, effective organization—is simply essential. Limited, restricted financial commitments combined with the failure to recognize the true costs associated with the work to be done inevitably leads to less than successful enterprises and funder frustration.

The challenge, whether one is primarily funder, thinker, or doer, is to engage in an honest conversation. Many approaches and strategies can improve outcomes and practices, but we ought not ignore the fundamental reality of the need for sustained, flexible capital. Here's to all who acknowledge and act on this. It may not be the most glamorous form of funding, but glamour, like beauty, is only skin deep.



Jeffrey Swartz, president and chief executive officer of The Timberland Company, is the third generation in the Swartz family to lead the company, following in the footsteps of his grandfather Nathan and father, Sidney. Under Mr. Swartz's leadership, Timberland has experienced significant growth, with a rise in revenue from \$156.1 million in 1989 to \$1.1 billion in 2000.

Operating on the belief that doing well and doing good are inextricably linked, Mr. Swartz is a strong advocate for the value of socially responsible business. In 1989, he joined the board of City Year, the national youth organization that provides community service in 13 U.S. cities; he has been chair since 1994. As a national founding sponsor of City Year, Timberland has invested more than \$10 million to help City Year grow nationwide and is the organization's official outfitter, providing City Year's signature boots and red jackets.

Through Timberland's own Social Enterprise department, the company regularly looks for ways to invest in its communities. This dedication extends to all Timberland employees through the company's Path of Service™ employee volunteer program. To date, Timberland employees have served almost 200,000 community service hours.

Mr. Swartz serves as a director of several social justice organizations, including Business for Social Responsibility and Combined Jewish Philanthropies of Greater Boston. He received his M.B.A. from Dartmouth's Amos Tuck School and his B.A. in Comparative Literature from Brown University.

## A Lasting Partnership for Change

by Jeffrey Swartz

My grandfather stood for purpose. He called purpose a boot. My dad stands for purpose—in his case, the brand he wrapped the boot in. For me, purpose is boot, brand, and belief, in a for-profit context. At Timberland, we define purpose around the belief that doing well and doing good are not separate activities but consistent and linked activities—in fact, inextricably linked.

I discovered that this sense of purpose could have profound effects on our business and on the community at the same time.

I was sitting at my desk in 1989 and I got one of those letters (you know the kind) that reads like this: "Dear Enlightened CEO, You've got, I need, let's talk." This letter said, "There are 50 of us in the city of Boston and we're out to change the world. Unfortunately, we don't have any boots—but you do. Please send 50 pairs so we can save the world. Love, City Year."

I sat at my desk feeling reasonably enlightened. Even then, I knew I should be a good guy and send the boots, so I did. And then I waited for the thank-you note that never came. Finally, I got a phone call from an intense justice entrepreneur named Alan Khazei, the co-founder of City Year. He wanted to come up and thank me in person, or so I thought.

He did thank me, but he also taught me something. Alan taught me to understand that my job isn't just to make boots and run a successful company. He showed me how a business could have a tremendous impact on the world of social justice while also managing for the bottom line by partnering our for-profit enterprise with his not-for-profit enterprise. He showed me all this in a half day of service.

Led by corps members from City Year, a small team from Timberland worked side by side with teenagers recovering from drug addiction. I experienced the power of service, and I'll never be the same. Timberland sponsored a City Year team that year and became the foundation national leadership sponsor and the official uniform providers for the now 1,000 City Year corps members who dedicate themselves to transforming the lives of the children and the communities with whom they work. Our job is to make boots and shoes and clothes and to incorporate justice into our business model. City Year's job is to unite diverse young people ages 17-24 for a challenging year of full-time service, leadership development, and civic engagement. Together, we're quite a team.

Yes, Timberland has a business mission to make superior boots, shoes, clothing, and accessories—but we can do so much more. By embracing justice as part of our business model, which in many ways is spiritually "funded" by our City Year partnership, we can and do create additional value for our consumers, shareholders, employees, and the community.

The Timberland-City Year relationship has evolved from boots, literally, toward branding—our relationship has become a strategic partnership and has become more "cooperation" than "transaction." Today I serve as the chair of the board of City Year, which now operates in 13 sites across America. Our relationship with City Year has evolved to a place where it really is a relationship, where we know them and they know us. A common interest expressed in concrete annual operating goals drives us now. What was a philanthropic transaction ("I've got boots and you don't") has become a powerful, mutually beneficial partnership ("What can we do for each other?").

That is not to say that everything is always rosy. Like in any relationship, there are ups and downs, but we push each other to be better. City Year has made Timberland a better community by teaching us the value of service, and we've made them better by helping them run like a for-profit business.

Our partnership has motivated tangible programs at Timberland that allow our employees to experience service. The Path of Service, which offers every employee 40 hours a year of paid time to perform service in his or her community, is one such program. Since the program began in 1992, Timberland employees have volunteered nearly 200,000 hours in their communities. This year, we offered a Service Sabbatical to employees wanting to do intensive service. The practiced philosophy of service has contributed enormously to a more satisfying workplace. It has also contributed greatly to our staff's ability to solve problems creatively. Employee service experiences generate discussion in the workplace that produces new thinking and unique ideas—all of which benefit our business and work environment.

Last year, City Year New Hampshire's 24-member corps took up residence in our corporate headquarters. Members of the first rural City Year, they are a daily reminder of the service ethic and the value of teamwork. They are a visual and daily reminder that we must do well, and we must do good—every day.

City Year's team-building influence on Timberland is not just a by-product of the relationship—it is an intended and encouraged goal. In fact, City Year staff and corps members lead "vision" and diversity seminars with our senior management staff and employees. They participate in sales meetings, shareholders meetings, and social events. Some corps alumni have even become employees.

As they say at City Year, "Community service is a powerful meeting place for diverse people and institutions to come together to find common ground." This is just as true for the diverse individuals and personalities within a company as it is in the communities surrounding us. By working side by side in service and internalizing the notion of volunteerism, the Timberland team grows stronger. So not only is Timberland furthering positive change and community betterment, we're making an investment in our infrastructure.

To say that our relationship with City Year was easily established and easily maintained doesn't do history justice. Our two organizations work hard to work well together. We've learned from experience that there are some basic principles that need to be observed when entering into a high-engagement relationship.

1. **The right partner is crucial—and the wrong partner is disastrous.**

Many nonprofits demonstrate all the right ingredients for success: a compelling mission, great leadership, strong board, and talented staff. Clearly these need to be in place for a venture to be successful. But the real key to our venture with City Year has been the match in culture and values. Unlike a foundation that may only invest dollars and management expertise, our company also spends thousands of hours in service together with the City Year staff. Getting along has been critical and has fostered an open environment for the exchange of ideas, best practices, failures, and successes.

2. **Collaborate from the beginning.**

In the old school of philanthropy a real tension could exist between a charity and a funder that often turned into a power struggle. As a result, social return was well below capacity. In the age of venture philanthropy, we turn this challenge upside down. At Timberland, we believe our venture with City Year has been successful largely because we sat together, from the beginning, to plan strategically a mutually

beneficial relationship. As a result, we sidestepped much of this tension early on by crafting an understanding together. Our collaborative input has successfully linked our strategies.

3. **Leverage different strengths: Listen, learn, and teach.**

Recognizing each other's strengths and limitations is key to any successful relationship. Rarely does one organization know all of the solutions. Nonprofits may be expert at strengthening the social fabric, but businesses bring expertise in strategy, marketing, and accountable execution. But they can exist in a mutually beneficial state when they carefully leverage each other. We've seen this in our venture with City Year, and our own commitment to diversifying our organization. Through our work with City Year, a fiercely inclusive organization, City Year has helped us adopt and develop better diversity programs and policies and moved us closer to realizing our goal of becoming a truly diverse organization.

4. **Define, measure, and recognize successes.**

We gather annually with City Year to review the state of the relationship and then touch base regularly throughout the year. We evaluate places where we missed the mark and talk candidly about areas of improvement. This has proved successful because we've selected indicators and performance measures to monitor our efforts and help us recognize and celebrate our success. Doing so means that we are constantly focused on maximizing our returns on our social and financial investments. Measuring progress establishes accountability for both the public and the private partner, and it reveals where we are missing opportunities to maximize the social return on investment and the financial return on investment. In all cases, don't just recognize the need for midcourse corrections; also recognize the successes on the table.

As City Year expands in 2002 and beyond, Timberland will continue to support its work in creative and powerful ways. More than ever, we are challenged by the great needs of our communities all over the world, but we are limited only by how deeply we believe in ourselves as individuals to pull on our boots and make a difference.



Melinda Tuan is the managing director of The Roberts Enterprise Development Fund (REDF). REDF applies a venture-capital approach to philanthropy through its charitable investments in a portfolio of San Francisco Bay Area nonprofit organizations that run social-purpose enterprises to employ homeless and low-income individuals.

Prior to joining REDF at its launch in 1997, Ms. Tuan was a manager with a national healthcare nonprofit and a management consultant. She holds an A.B. degree in Social Studies from Harvard University and an M.B.A. from the Stanford Graduate School of Business.

## REDF: Reflections on Five Years of Venture Philanthropy Implementation

by Melinda Tuan

### Background on REDF

The Roberts Enterprise Development Fund (REDF) was launched in January 1997 as the successor fund to the Homeless Economic Development Fund (HEDF), which existed from 1990-1996. REDF was designed to implement the successful investment and management strategies HEDF had developed to support nonprofit-run social-purpose enterprises. With seven years of “research and development” and five years of implementing what is now called venture philanthropy, REDF has experimented with many approaches to engaged grantmaking, made many mistakes, and learned a lot of lessons while helping a portfolio of nonprofits grow and succeed along the way. At REDF, we are committed to sharing the lessons we have learned and have written extensively on both venture philanthropy and social-purpose enterprise. All of REDF’s publications are available for free and can be found at [www.redf.org](http://www.redf.org).

### Five Guiding Principles

During the past five years, five guiding principles have emerged as REDF best practices and now inform our approach to philanthropy and building productive partnerships with our portfolio nonprofit organizations. These five principles are:

1. **Clarity.** When we launched REDF in 1997, we thought we were clear about our new, more hands-on approach to working with nonprofit organizations. We invited ten nonprofit organizations to join us in a five-year initiative focused on expanding their social-purpose enterprises. We sent each executive director a two-page letter describing the new REDF expectations and hosted a luncheon with them to discuss how our philanthropic relationship would be different than a typical foundation/grantee relationship. However, in late 1998, we discovered that our portfolio members were dissatisfied with the funding relationship and had little clarity about REDF’s expectations. We found that we needed to articulate better what the engaged grantmaking relationship was about. We reassessed what we expected to accomplish through our philanthropy, interviewed all of our portfolio members to gain their perspectives on REDF, developed criteria by which we and the organizations would be assessed for the remainder of the initiative, and documented all of this for clarity.

As a result, we are now using a Memorandum of Understanding (MOU), which REDF staff and the nonprofit organization’s management and board of directors sign at the beginning of each year. The MOU details not only REDF’s expectations for agency and enterprise performance and the relationship, but it also defines what the nonprofit can expect from REDF. The MOU spells out the time frame for the investment, types of investments, process for decisions about the grants, frequency and types of communication, and many other aspects of the complex relationship we have with each portfolio member. While some organizations comment on the significant length of the MOU, all of the organizations have expressed appreciation for the clarity of its contents and the fact that everything is documented.

2. **Communication.** When we began REDF, our principal form of communication with our portfolio members was oral and perhaps through a few short letters. Most conversations about the REDF-agency relationship took place between REDF’s executive director and the executive directors of the nonprofit organizations. Over time, we realized that we needed more extensive written communication (for clarity and to document decisions), and we needed additional ways to communicate with individuals at different levels within the nonprofit organization.

Our written communication has evolved to include an annual MOU, a semiannual assessment (both REDF and the nonprofit assess each other across several criteria laid out in the MOU), and frequent e-mail. REDF holds monthly venture committee meetings with each portfolio member, in which the nonprofit executive director, CFO, and business managers meet with REDF's managing director and business analyst(s) to discuss how the agency and social-purpose enterprise(s) are doing. In addition to these venture committee meetings, REDF's business analysts meet regularly with the business managers to work on business-related projects, and REDF's managing director meets quarterly with the nonprofit's executive director and periodically with the agency's board of directors. While having these multiple layers of communication is complex and raises other issues, we have found this increased communication to be essential in building more productive working relationships.

3. **Customization.** REDF has always provided an array of supports to our portfolio nonprofits to help their enterprises grow and succeed. These include hands-on assistance from REDF staff and consultants in the areas of business operations and planning, staff recruiting, networking, technology, and social-outcomes assessment, to name a few. When we began our work in 1997, we had the unwritten and unspoken desire and expectation that every group would use everything we had to offer. When groups did not take up our proffered support (or felt coerced into using assistance they felt they didn't need), it created tension and resentment in our working relationship.

We now assess each organization's ability to benefit from each type of support REDF provides and customize our approach and expectations accordingly. We recognize that we need to adapt what we provide to each organization's needs. For example, a more established, sophisticated organization might benefit more from REDF's business networks to promote their enterprises and recruit a top-level executive, whereas a newer, start-up organization may need help with business planning and systems setup.

4. **Collaboration.** Our approach to venture philanthropy is about building strong, positive relationships with our portfolio members to help them better meet their missions. In building these relationships, collaboration is crucial. Over time, we have moved from pressuring the nonprofit organizations to aggressively grow their enterprises to developing appropriate financial and social outcome goals together. We emphasize partnership in problem-solving. A key element to this approach has been to create an environment where problems can be openly discussed and resolved in a positive manner. Successful collaboration between REDF and the nonprofit is not easy because of the power dynamic present when REDF has the money the organization needs to succeed. We have worked hard to minimize this dynamic by seeing ourselves as facilitators, rather than authorities, as helpmates rather than monitors. We continually critique and improve organization and individual attitudes and interaction styles, consistently asking for feedback and developing trust with the organizations over time through our actions.
5. **Consistency.** With clarity, communication, customization, and collaboration as cornerstones of our philanthropic practice, REDF's consistency across all these areas is essential and no small challenge to implement. In our earlier years, we were not consistent in the messages we sent to the nonprofits. Different REDF staff would communicate conflicting expectations and, as mentioned earlier, there was little clarity about the terms of the engaged grantmaking relationship. Over time, we worked hard to ensure that our communication with the portfolio members is consistent from one REDF staff member to another. We hold weekly "portfolio review" meetings with all REDF staff who interact with the portfolio members to discuss the status of organization/enterprise(s), the message that has been communicated and needs to be communicated with the organization, and the appropriate person to convey that mes-

sage. In doing this work year after year with the same organizations, we have had the opportunity to demonstrate greater consistency across the areas of clarity, communication, customization, and collaboration.

In early 2002, as we complete REDF's first five years, we will be conducting and publishing an independent, retrospective assessment of our philanthropic practices. By continually asking for feedback from our portfolio members and improving our practices, we hope to further the success of our nonprofit partners and social-purpose enterprises. In so doing, we hope to improve the lives of the many homeless and low-income individuals they employ. And by sharing our lessons learned, we hope to continue to contribute positively to the field of venture philanthropy.

