Venture Philanthropy: Its Evolution and Its Future

Introduction

This paper is aimed at two main audiences: the overall philanthropic sector, which has increasingly been incorporating elements of venture philanthropy into its work, and venture philanthropy practitioners, for whom the discussion of the future of the field may be of particular value.

In order to gain a better understanding of the evolution, impact, influence, and limitations of venture philanthropy, and the reasons for its limited adoption, we conducted 28 interviews with key philanthropists and nonprofit practitioners (see Exhibit 1 for a list of interviewees) and reviewed the literature published since venture philanthropy’s debut article. To date, there has been no attempt to systematically collect and analyze the results of venture philanthropy. Based on limited available data, we report the impact of venture philanthropy and make assertions about its practice.

The moment for this inquiry seemed particularly timely. Embedded practices of venture philanthropy, such as outcome measurement, are becoming increasingly important to the grant making of many traditional foundations. New tools and ideas with roots in venture philanthropy, such as impact investing, are growing as innovative ways to build social value. In addition, scholars have reported that the United States is on the cusp of an intergenerational wealth transfer estimated to be between $41 and $138 trillion, of which an estimated $6 trillion will be dedicated to philanthropy. 105 billionaire families have to date committed to Warren Buffet and Bill Gates’ “Giving Pledge” to donate at least half their fortunes to philanthropy. These new philanthropists will be selecting a method by which to “invest” or give away their wealth. What would be the effect on ameliorating societal problems at scale if some meaningful portion of this wealth is distributed via venture philanthropy?

In 2011, non-religious philanthropy in the U.S. totaled $202.54 billion. Trillions of additional dollars have been given to nonprofit organizations over past decades. Yet philanthropists are increasingly frustrated that their goals of improving public education, reducing homelessness, or increasing job readiness still seem elusive. Despite conventional wisdom, the dearth of philanthropic results may be less a function of the total amount spent and more a product of the way money is traditionally given to nonprofit organizations. For the most part, philanthropy is distributed for specific programs, for relatively short periods of time, and with little accountability for results. Even

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a We reviewed 45 articles and books as a part of the literature review. The list is available upon request.
when a nonprofit can prove its effectiveness, donors rarely provide enough growth capital to enable organizations to impact a societal problem at scale. As described below, venture philanthropy takes a different approach.

The concept of venture philanthropy was introduced in April 1997 with the publication of a Harvard Business Review article entitled “Virtuous Capital: What Foundations Can Learn from Venture Capitalists.” It asked why the trillions of dollars donated by philanthropy over the previous decades were not having greater impact in addressing the societal problems of the U.S. The article speculated that foundations could glean some useful practices from venture capitalists and recommended that philanthropists consider utilizing some of the methods of venture capital including due diligence, risk management, performance measurement, relationship management, investment duration and size, and exit strategy. The approach was named venture philanthropy (VP) and received a great deal of attention both within and outside the field.

In the intervening sixteen years, venture philanthropy has transitioned from theory to practice, with significant successes. Although the VP approach is used by only a small number of the 76,600 foundations in the U.S. that annually give away $46.9 billion, our research strongly suggests that venture philanthropy has had an outsized impact on the nonprofit sector. It has been a major force in changing the conversation about measuring effectiveness and defining success for nonprofit organizations. It has been a crucial resource for scaling results-driven organizations such as City Year, KIPP, and Youth Villages (see Exhibit 2 for more details on the nonprofit organizations discussed in this paper). The CEOs interviewed for this article said that without venture philanthropy, their organizations would not be serving anywhere near the number of beneficiaries they do today.

**What is Venture Philanthropy Today?**

**A Definable Practice**

“The underlying principle of venture philanthropy is that if you are an effective organization, [VP] contributions aren’t just impacting the current customers but they are helping tilt up the growth curve of the organization. Our funders made us dream so much bigger than we thought we could.” –Andrew Youn, CEO, One Acre Fund

Overall, the practice of VP aims to serve more people, more effectively. To that end, venture philanthropists make “fewer, larger, longer grants” that are backed by “a core belief in the power of strong organizations to produce change.” From our interviews and review of the literature, we concluded that venture philanthropy has become a practice comprised of eight core elements, which can be grouped into funding terms, selection process, and investment period.

**Funding Terms**

- **Grants supporting growth and core operations.** Venture philanthropists provide unrestricted funding to invest in building the capacity of organizations to improve their effectiveness and ability to scale.

- **Long-term commitment and grant size.** Grants are likely to range from three to five years rather than one year and are usually larger than the average grant of traditional philanthropists.
• **Continued funding tied to measurable results.** Venture philanthropists place a strong emphasis on measuring results and holding organizations accountable for achieving agreed upon outcomes. This may manifest itself in milestone payments or a staged release of funds over the life of a grant. This emphasis embeds measurement and evaluation at the core of a nonprofit—VP relationship. The evaluation process and expected outcomes are typically designed collaboratively to support the needs of both parties.

**Selection Process**

• **Due diligence on potential grantees.** This extensive process often includes the review or creation of a business plan, careful assessment of management capacity, and an understanding of organizational results and measurement capabilities. It also includes assessment of other providers in the field and the relative value added by the potential grantee.

• **Scale of impact as a criterion for investment.** For some venture philanthropists, scale is assessed as the magnitude of an organization’s potential impact (e.g. number of lives affected), while for others, scale is determined to be the potential impact relative to the size and scope of the societal problem being addressed.

**Investment Period**

• **“Funding and” approach.** This often includes holding a board seat, providing capacity building support, building communities of practice, and a close program (investment) officer relationship. The type and level of support may be adapted based on the changing management needs of the organization over the course of the investment period.

• **Management support.** This usually takes the form of management training programs, coaching, or assistance with hiring C-level personnel. Reminiscent of venture capital, there is an understanding that success of a great idea is contingent upon identifying and building the right leadership team that can effectively execute against a plan.

• **Strategic exit from a sustainable investment.** In contrast to venture capital, where the exit options are clear (initial public offering, strategic buyer, etc.), the exit strategy in VP is still evolving. VP strives to establish a path to organizational sustainability from the start of the investment through earned revenue, next stage venture philanthropist, government, other philanthropic funding, or some combination of these revenue sources. For examples of VP enabling sustainability, see Exhibit 3. (For examples of VP enabling sustainability, see Exhibit 3.)

Unlike venture capital, it is important to note that venture philanthropy has become a methodology that is practiced at different stages of an organization’s development. The core elements described above are equally applicable from start-up to scaling established organizations. However, for optimum effect, the VP elements are adapted to the life stage of the organization. For example, one might expect less sophisticated evidence of success for early stage nonprofits than for more established organizations (see Exhibit 4: Assessing an Organization’s Evidence of Effectiveness from the Edna McConnell Clark Foundation).

While there does not seem to be consensus among venture philanthropists as to how or whether all of these elements need to be employed, particularly with respect to some “funding and” activities

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b A venture philanthropist observed that, given the fact that VP can be applied from an early stage to national scaling, venture philanthropists may be looking more for a transition to reduced funding than an exit.
(such as taking a board seat), our interviews revealed that venture philanthropists do embrace the majority of the elements. Matt Bannick, Managing Partner of Omidyar Network, elaborated: “There is a strategy here. This should be a mutually reinforcing and internally consistent set of tools and not just a list of options.” Rebecca Onie, Co-Founder and CEO of Health Leads, discussed the value of New Profit Inc.’s investment in her organization, which mobilizes college student volunteers to connect low-income patients with community services: “The significant unrestricted capital was huge […] but the engagement with New Profit went beyond that. The opportunity to have guidance and a thoughtful partner who could look at our work holistically, where every move implicates another, and who could do pattern recognition across New Profit’s portfolio and share best practices, was invaluable.”

It should be noted that many philanthropists who embrace the elements of VP call their approach to philanthropy by other names, such as outcomes-driven, evidence-based, or performance-driven philanthropy. However, these terms are not as commonly used, so we will use venture philanthropy throughout this paper.

**Different Approaches to Philanthropy**

We think it is informative to look at other philanthropic approaches to determine where VP fits into the landscape of philanthropy. Jeff Raikes, CEO of the Gates Foundation, provided a framework that divides philanthropy into three approaches:

- **Charity:** giving is driven by the desire to address the pressing needs in society; emphasis is on alleviating immediate suffering and filling in gaps, not on the potential for systemic change or the long-term delivery capabilities of the enterprises.

- **Catalytic Philanthropy:** giving is aligned with a theory of change developed by the funder, which seeks to invest in the organizations, knowledge, advocacy, and delivery capabilities required to address a multifaceted solution to complex problems which are beyond the scope of a single organization; measurement includes an emphasis on changes to an entire market or ecosystem.

- **Organization Building:** giving is an investment in the grantee’s own leadership, theory of change and capacity to deliver on their mission; measurement focuses on the capabilities of the enterprise and the scalability of its impact.

Venture philanthropy clearly fits into the organization building approach, while most traditional foundations follow the catalytic philanthropy approach. These foundations assume much of the responsibility for designing what they perceive as the best response to a societal problem and then fund nonprofit organizations to deliver the programs – a kind of subcontractor model. Giving is aligned with the funder’s internally developed theory of change; the funder believes that grantees’ role is primarily to execute the grantor’s theory of change and money is for the most part directed to programs. As multiple interviewees noted, this usually requires program officers to have deep sector expertise and to be capable of managing and coordinating a large number of grantees. Embedded in this model is the implicit assumption that a foundation’s program officers and/or subject matter experts are more or at least as knowledgeable about the nature of the societal problem and its potential solution as the organizations delivering the service.

By choosing to focus on the delivery of specific programs over a relatively short period of time, there is often a lack of attention to the long-term sustainability of the organization providing services.

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* There are many terms used to describe different approaches to philanthropy. For the sake of this particular discussion, we will use the categories provided here.
A 2011 Grantmakers for Effective Organizations (GEO) study observed a disconnect between traditional grant maker practices and nonprofit needs for capacity building support, multi-year funding, and general operating support. Indeed, Foundation Center data shows that only 10% of foundations reported some multi-year grant making in 2004-2010, with overall multi-year giving never comprising more than 28% of total grant dollars or 6% of grants authorized during that period. The 2011 GEO study found that more than a quarter of grant makers surveyed had reduced their multi-year funding. In addition, only 16% of foundation giving in the U.S. per year from 2008 to 2010 was allocated to general operating support.

Venture philanthropy by contrast utilizes a partnership model that supports the nonprofit’s own theory of change and growth strategy through large, multi-year grants for general operating support. VP also involves a sizable investment in non-financial support which many grantees report to be valuable; a 2011 survey of Omidyar Network’s investees found that over 40% of investees held Omidyar’s non-monetary contributions to be “of equal or greater value than [Omidyar’s] financial contributions.” This method requires its own set of specialized skills. Doug Miller, Founder of the European Venture Philanthropy Association (EVPA) and Asian Venture Philanthropy Networks (AVPN), cautions: “Venture philanthropy, not unlike venture capital or private equity, is a methodology which is only as good as those who practice it.” More specifically, VP organizations need investment-minded and investment-trained officers who are adept at analyzing the quality and potential of a management team, the opportunity, the viability of a business model, and the financial sustainability of an organization. An investment officer also needs to have sector expertise and a deep understanding of the grantee.

Effectiveness and Innovation

Beyond defining the characteristics of venture philanthropy, we sought to understand its relative effectiveness and under what circumstances VP is more or less effective than other forms of giving. We discovered that the majority of VP funds flow to service delivery organizations, which is where we directed our research. It has been suggested that VP may be uniquely suited to support service delivery organizations that understand and can articulate how their outcomes are achieved—their theory of change—and how results are measured.

Two key insights emerged from our research regarding the importance of scale and innovation in venture philanthropy.

First, in order to be of interest to most venture philanthropists, nonprofit service providers must be committed to scaling their impact.

Although there is a need for additional research, there is evidence that VP is a critical growth engine for nonprofit service providers. A recent study by The Bridgespan Group found that of the more than 200,000 nonprofit organizations founded between 1975 and 2008, only 201 attained $50 million in annual revenues (excluding hospitals and universities), with a significant portion of that growth occurring during the 2000s. One important contributing factor in bringing organizations to scale highlighted by the study was the role of the “Big Bettor,” i.e. a funder willing to make a significant investment in a small- to mid-sized organization. Our analysis of the Bridgespan data showed that, of the 201 organizations in Bridgespan’s list, there were eight organizations founded after 1985 that were non-local (with a regional, national, or international reach) and classified as some

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\[d\] We also did not find clear examples of effectiveness of VP with advocacy or movement-building organizations. It may be that evidence-based philanthropy would have a role to play there as well, but we did not have enough data to include that discussion in this paper.
kind of service delivery (human services, education or public safety, and societal benefit).

Of those eight, seven had received major venture philanthropy funding. Bridgespan’s article “Why More Nonprofits are Getting Bigger” concludes: “Two key factors contributed to the emergence of these (new) organizations: results-oriented philanthropists and ambitious social entrepreneurs seeking scalable solutions to major social challenges […] taken together, these trends fueled tremendous growth in the number and sheer size of nonprofits.”

Nonprofit leaders such as Mike Feinberg, Co-Founder of KIPP, a national network of public charter schools, and Michael Brown, Co-Founder and CEO of City Year, a national youth service and civic leadership organization, agreed that venture philanthropy played a key role in bringing their nonprofits to scale. Brown stated that receiving VP funds signaled to other funders that City Year was an appropriate risk. Feinberg stated that venture philanthropists “were the first ones, which cleared the way for others jump in the water made it safe.”

Secondly, in addition to the ability and desire of nonprofits to scale, venture philanthropists are interested in identifying, supporting, and sustaining social entrepreneurs with innovative models that could lead to “pattern-breaking social change” with the potential for broad and sustainable impact. This quest for innovation takes two paths in VP: one is the search for new, disruptive models, such as Echoing Green’s two-year fellowship providing seed funding to a select group of new social entrepreneurs, while the other is the search for evidence-based programs that have proven results but are reaching a limited number of beneficiaries. For its Growth Capital Aggregation Pilot, the Edna McConnell Clark Foundation chose three nonprofits with innovative approaches to providing lasting solutions to some of the most compelling societal problems of America’s youth. For example, Nurse-Family Partnership provides home visits by registered nurses to low-income, first-time mothers, which in addition to a net financial benefit to society of over $34,000 per mother served, also found significant positive social effects in a 15-year follow up study, including a 48% reduction in child abuse and neglect and a 67% reduction in behavioral and intellectual problems among the children.

Building an Ecology of High Performance

Our interviews suggest that venture philanthropy has been a key driver in the development of the social entrepreneurship movement. Jeff Bradach, Co-Founder of The Bridgespan Group, a leading consulting firm for nonprofits and philanthropists, observed that “it is hard to imagine one without the other; they are self-reinforcing.”

Our interviews with nonprofit practitioners described how venture philanthropy was the fuel that helped social entrepreneurs move from a concept to building sustainable organizations. Michael Brown cited the value of an individual willing to take a risk: “[The philanthropist] realized no one wanted to go first so he created the market. That leveraged piece of private equity know-how launched us.”

Funding across Stages of Organizational Development

Today, there appears to be an increasingly committed group of funders willing to participate in venture philanthropy that allows for organizations to move more fluidly along a continuum of support through different phases of growth. Vanessa Kirsch, Founder of New Profit, stated, “Entrepreneurs who are coming to us now assume there will be a strategic, engaged philanthropist focused on outcomes at the next stage of growth. They come in with a business plan and a Balanced Scorecard and expect $1 million over three years. They get their seed funding from organizations like
Echoing Green or Ashoka and then come to a venture philanthropy institution for growth capital. [...] There is an [eco]system; it is not robust and there isn’t enough yet but it is a lot better than it was.”27 This sentiment was echoed by other funders and nonprofits who have seen this capital market begin to take shape over recent years.28 Diana Wells, President of Ashoka, described how from early on Omidyar provided seed funding with the intention that Ashoka would be “building a pipeline of potential future investments for Omidyar; we are an engine for the sector.”29

Matt Bannick of Omidyar summarized these observations: “We believe we’re entering an exciting new stage in philanthropy.” Where venture capital emerged as the early stage funder of innovation in a functioning capital market, evidence indicates venture philanthropy has played a significant role in creating a more rational market system for nonprofit funding. Bannick continued: “Although this social capital market is still in early stages of development, we see more capital available from an increasing number of recognized sources. Moreover, the capital is available to fund social entrepreneurs’ organization-building at various stages of growth.”30

**Figure A**  Venture Philanthropy across Stages of Organizational Development*

<table>
<thead>
<tr>
<th>Angel</th>
<th>Early Stage</th>
<th>Growth/Mezzanine</th>
<th>Long-Term and Large-Scale Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Success:</strong> Develop leader entrepreneurs and early stage pilots</td>
<td><strong>Success:</strong> First replication, scaling pilots</td>
<td><strong>Success:</strong> Grow proven concepts to consistently deliver impact at scale</td>
<td><strong>Success:</strong> Achieve significant scale and/or long-term funding</td>
</tr>
<tr>
<td>Ashoka, Draper Richards Kaplan Foundation</td>
<td>New Profit, Omidyar Network, Pershing Square Foundation</td>
<td>Edna McConnell Clark Foundation</td>
<td>Government funding, earned revenue, traditional philanthropy</td>
</tr>
</tbody>
</table>

Source: Authors.

This continuum underscores the point made earlier that VP is not only an approach for funding early stage organizations but is a way to enable scaling of more mature nonprofits. A number of the venture philanthropists we spoke with are active at specific stages, while others fund across a spectrum from early to late-growth stage organizations. Venture philanthropists generally do not provide sustaining funding, aiming instead to bring organizations to a scale that will allow them to access long-term funding streams. There is in fact an emphasis on planning for sustainability and achieving impact on a large scale even in angel or early stage investing. However among venture philanthropists, there is not a clear shared definition for scale or agreement on potential paths to achieving large-scale impact. This is an area for further discussion and research.

At different stages of development, venture philanthropists may focus on different aspects of organizational needs. For example, greater investment in human capital and management support may be needed for a young organization, while a more established organization will require larger infrastructure investment to grow to the next proof point. While the definitions of success a venture philanthropist may embrace will differ across stages (as outlined in Figure A), there are two questions a venture philanthropist consistently asks:

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6 Note that the organizations listed in Figure A may invest in more than one organizational development stage. For example, New Profit has spanned the range of angel to growth stages, including investments which overlap with Ashoka’s portfolio as well as investments in partnership with the Edna McConnell Clark Foundation.

7 Various avenues to sustainability for nonprofits have been discussed in William Landes Foster, Peter Kim, and Barbara Christiansen’s article, “Ten Nonprofit Funding Models” (Stanford Social Innovation Review, Spring 2009).
• Does my funding “tilt up the growth curve”\textsuperscript{31} of the organization? (\textit{Accelerate growth towards scale})

• Does my funding create a proof-point for the next stage of growth? (\textit{Create measurable impact to attract the next level of funding})

The venture philanthropists we spoke with agreed that the risk of having an underperforming investment was relatively constant across organizational growth stages. This was true despite the fact that the nature of the risk changed across the different stages. For example, in the angel phase, the risk was an innovation’s failure to deliver its desired impact or the viability of the organization itself. In the growth/mezzanine phase, the risk tended to be more that the organization would not be able to maintain the quality of its results as it scaled.

\textit{Pooling of Funds}

While the universe of institutions committed to practicing venture philanthropy is limited, their influence among more traditional donors is substantial and increasing. Interviews with VP practitioners indicated that there has been increased co-investment by wealthy individuals and traditional foundations in VP-type funding pools. For example, the Edna McConnell Clark Foundation (EMCF)’s Growth Capital Aggregation Pilot, launched in 2007, raised $81 million from 19 co-investors, the majority of which were not venture philanthropists. This augmented EMCF’s $39 million commitment to fund the growth of three evidence-based nonprofits.\textsuperscript{32} The federal government has created the Social Innovation Fund (SIF) to help scale nonprofit organizations with evidence of results by providing funds to grant makers to redistribute to their grantees. Private philanthropists must match SIF money two to one.\textsuperscript{33} Thus far, $137 million in federal funding to 20 grant making intermediaries has yielded $350 million in other commitments.\textsuperscript{34} The U.S. Department of Education’s Investing in Innovation (i3) program, another initiative aimed at pooling funds, was launched in 2010 as a $650 million, five-year grant program that requires applicants to raise a 20\% private sector match.\textsuperscript{35}

This trend of donors pooling money has enabled a broad community of philanthropists to learn about and distribute funds through a VP process without having to adopt a VP model themselves. The VP practitioner acts as the coordinator of funds, responsible for bringing in other donors. Co-investment appears to be an effective mechanism for overcoming some of the switching costs of converting to VP (discussed later) while increasing the capital distributed to high-performing organizations.

Despite these successes, pooling goes against the grain of many philanthropists. Although many donors appreciate the power of pooling funds, philanthropy remains highly individualized. Charles Harris, Founder and former Executive Partner of SeaChange Capital Partners, observed: “Pooling often requires a pre-existing trusting relationship. Donors are resistant to ceding decision-making to anyone else.”\textsuperscript{36}

\textit{Other Impacts of Venture Philanthropy}

Another aspect of philanthropy that has been influenced by VP is the trend by a broad range of donors to measure outcomes and impact as key elements of scale.\textsuperscript{37} Understanding how to strategically achieve scale is a relatively new conversation in the nonprofit sector. The fact that scale
is at the heart of VP has helped drive this dialogue and emerging research focused on scaling impact. The Social Impact Bond, an innovative funding mechanism involving public-private partnerships, is based in many ways on the principles of venture philanthropy. The aforementioned U.S. government’s Social Innovation Fund is another public-private partnership driven by evidence-based performance. Mario Morino, Founder of Venture Philanthropy Partners and author of “Leap of Reason: Managing to Outcomes in an Era of Scarcity,” has been an important contributor to the conversation about how funders and practitioners should think about and implement measurement. The book is based on his experiences as a venture philanthropist.

Finally, venture philanthropy has created indirect benefits for the nonprofit sector. Nonprofits funded by venture philanthropists that have achieved significant scale are addressing how to reshape the systems in which they operate. For example, City Year brought the conversation about service and civic engagement to the national level and was a key driver in increasing national funding for public service. Youth Villages is helping to transform policy and pushing for performance-based contracts by working with states to provide evidence-based programs for children in the child welfare, juvenile justice, and mental health systems. These and other organizations are taking an active leadership role in changing the perspectives of policy makers and funders as to what might be possible for addressing societal problems at scale. Venture philanthropy’s impact on the sector as a whole continues to develop, although as Jeff Bradach states, “ideas are ahead of practice.”

A side note about the relationship between venture philanthropy and impact investing. Impact investing is an emerging field that aims to generate both a social and financial return. Because a financial return must be realized, investors have tended to be somewhat risk-averse and are often more interested in funding social enterprises with a proven track record rather than startups or early stage organizations. However, a recent report by Acumen Fund and the Monitor Group highlighted the crucial role of philanthropy in reducing the risk to impact investors by providing early stage equity to social service delivery organizations. A separate report by Omidyar Network entitled “Priming the Pump” underscored the importance of early stage venture philanthropy in sparking and nurturing new approaches to social change.

In the future, it is possible that venture philanthropy could more deliberately enable nonprofits or for-profit social enterprises to reach a proof-point sufficient for impact investors to enter at the growth or sustaining phase. An example of this transition is the microfinance industry, which was funded initially by philanthropy. Especially pertinent is that the nonprofits that were pioneers in microfinance were strategic in helping to start a for-profit industry. A few of these nonprofits retained a carried financial interest in some of the for-profit microfinance organizations flourishing today. Whether this phenomenon is replicable for other scalable ideas remains to be seen. However, if so, this model could be a dynamic mechanism for nonprofit sustainability and another way for venture philanthropists to achieve successful exit from an investment.

Where Do We Go from Here?

“By 2000, philanthropy was included in mainstream media with new donors coming in like Omidyar, Gates, etc. The difference between 1980 and 2000 is astonishing and VP was part of that mosaic.” – Thomas J. Tierney, Chairman and Co-Founder, The Bridgespan Group
During the past sixteen years, a great deal has changed in the nonprofit sector. More money is being distributed based on organizations’ evidence of success and there is a growing pipeline of well-managed nonprofit organizations. As discussed, many of these organizations have reached significant scale with the support of venture philanthropy, such as Citizen Schools, Year Up, and YouthBuild USA, to name a few.

The potential for nonprofit organizations to be a part of systemic change has never been greater. The necessary supporting environment that enables this potential outcome is rapidly evolving. There has been a growth in the number of intermediary organizations dedicated to building high-performing nonprofit organizations. The Bridgespan Group, a nonprofit consulting firm that focuses on improving performance of funders and nonprofit organizations, was founded ten years ago by Jeff Bradach, ex-Harvard Business School professor, and Tom Tierney, ex-CEO of Bain and Company. Demand for Bridgespan’s services outstrips the capacity of their 200 staff members. Around the same time, other nonprofit firms like the Center for Effective Philanthropy and Foundation Strategy Group were created to support improved performance of the nonprofit sector. Specialized consulting services by established for-profit firms such as Bain, Boston Consulting Group, and McKinsey are helping nonprofits to become more effective. There is also increased emphasis on defining and measuring social value creation by leading business schools such as Duke, Harvard, MIT, Oxford, Stanford, and Wharton. Social entrepreneurship programs are flourishing around the globe. Nonprofit organizations like Growth Philanthropy Network and the Nonprofit Finance Fund have been created to conduct research and enhance the performance orientation of the sector while a number of evaluation and performance measurement research organizations such as MDRC and Mathematica Policy Research have expanded their operations. While we are not trying to prove that these activities were directly caused by the emergence of VP, it would be difficult to deny a high correlation between these trends and the emergence of funding tied to results.

Today, there is sufficient evidence to claim that a VP approach to distributing philanthropic capital has made a contribution in shaping the nonprofit sector far in excess of its share of total philanthropic dollars. Moreover, as government budgets for services tighten, philanthropists are likely to play an “outsized role in who withers and who grows.” These conclusions lead us to ask, what should VP practitioners or other philanthropic stakeholders do to optimize VP’s potential and accelerate the adoption of a venture philanthropy approach to giving?

New Individual Venture Philanthropists

We began answering this question by exploring who might be the most logical adopters of venture philanthropy. The wave of retiring baby boomers and the anticipated intergenerational wealth transfer provides a population of potential new philanthropists who may be predisposed to

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8 We attempted to determine the relative size of VP in the U.S. but could not locate meaningful data. In Rob John’s chapter on venture philanthropy in *The World that Changes the World* (San Francisco: Jossey-Bass, 2010), he concurs that there are no official statistics on the size of the VP sector, but estimates that there are likely 150 “purist” VP funds globally (those that primarily utilize a VP approach), although he does not attempt to estimate annual VP giving. Giving USA does not break out VP as a separate category when analyzing foundation giving. If we look at the selection of U.S. VP organizations discussed in this paper, they had a combined annual giving of $143 million and assets of $2.1 billion (see Exhibit 5). This is small relative to the size of total foundation giving and assets in the U.S. (a fraction of 1% of annual U.S. foundation giving of $46.9 billion and assets of $646.1 billion, as estimated by the Foundation Center in June 2012). However, it is important to note that this does not include individual donors who practice VP, nor does it include “follow-on” funders who choose to fund specific nonprofits because they have already been vetted by VP organizations. Anecdotes from venture philanthropists indicate this number may be significant, although there has been no data collected on this to date. Another possible way of estimating VP’s impact would be to look at the ratio of VP dollars spent to other dollars invested in VP-funded organizations, and to what extent investees were able to leverage VP funding to access larger pools of capital. These are both areas for potential future research.
apply their professional capabilities to their giving and take a more engaged approach to addressing the world’s problems via VP.

Widely recognized research by Paul G. Schervish and his colleagues estimates that there will be an intergenerational wealth transfer of $41 trillion (up to $136 trillion) by 2055, with an estimated $6 trillion of this to go to charitable giving.\textsuperscript{43} The wealthiest 400 Americans alone control net worth estimated at $1.7 trillion.\textsuperscript{44} The profile of this generation suggests they will find venture philanthropy a compelling alternative to other forms of giving. Schervish’s research characterizes the new dynamics of giving for this generation: “wealth holders seek out greater charitable giving, move their giving toward profound lifetime involvements, purposefully limit the amount left to their heirs and approach their philanthropy with an entrepreneurial disposition.”\textsuperscript{45} There is unsurprising evidence that this group wants to give smarter and be active donors. A recent article in the Chronicle of Philanthropy on baby boomers states that “[the days of automatically writing a check and walking away are over […] Baby boomers have been trained to look for more accountability and seek out more impact in their gifts.”\textsuperscript{46} In addition, many in this generation are likely to be intrigued by the opportunity to “solve problems […] as a parallel to the business world in which they made their money.”\textsuperscript{47} As Tom Tierney, co-author of “Giving Smart: Philanthropy that Gets Results,” stated, “when people give away their own money, particularly to organizations they might not know as well, they are more likely to be interested in results.”\textsuperscript{48}

\textit{Challenges for New Venture Philanthropists}

This conclusion leads to the questions, what might be the primary constraints to VP adoption for these emerging philanthropists and what could be done to lower the barriers to adoption? Perhaps the most important contribution to encourage adoption would be to provide knowledge to inexperienced donors about VP as a way to optimize the results of their philanthropy. Donors must understand the differences in nonprofit management, fund flows, organizational culture, scaling, mission focus, attaining financial sustainability, etc. These considerations add layers of complexity to the practice of venture philanthropy when compared to for-profit investing. Not unimportantly, this approach takes a good bit of time to execute well. Throughout our interviews we heard of the complexity and time requirement of the VP approach. Due diligence, measurement, and management support are just a few of the challenges that require a significant commitment of resources beyond what might be needed for traditional philanthropy.

In addition, many of the venture philanthropists we spoke with argued that commitment to the VP approach cannot be won through data alone. Vanessa Kirsch commented that it is hard to attract donors to participate in a pooled fund if you focus solely on facts and figures. She stated that there must be both “right brain and left brain appeal.”\textsuperscript{49} There must be some engagement of emotions to motivate donors to participate.

One model aimed at overcoming these potential barriers is Social Venture Partners (SVP), an organization dedicated to engaging individuals to practice venture philanthropy in their local communities. Founded in 1997, today SVP is a network of 2,600 individual “partners” who have contributed more than $46 million in grants through 30 SVP locations across North America, India, and Japan.\textsuperscript{50} SVP strives to act as a “hub for local impact” in each city where it operates, providing its partners with education in philanthropy and collective engagement through the SVP network and its learning communities. Partners are expected to contribute both funds and volunteer hours through serving on nonprofit boards and other forms of hands-on engagement with investees, and are provided with training to support these endeavors. By engaging locally through what initially may be a small-scale investment, partners can experience the value of the VP approach personally.
Options for Engagement

There currently are three major ways for individuals to engage in venture philanthropy:

1. **Pooled funds**: contribute to an organization already engaged and experienced in venture philanthropy — Draper Richards Kaplan Foundation, Edna McConnell Clark Foundation, New Profit, New Schools Venture Fund, Social Venture Partners, Venture Philanthropy Partners

2. **Staff a new entity**: start an organization and rely on staff with the capacity to plan and implement the key practices of venture philanthropy — Omidyar Network, Skoll Foundation

3. **Hands on**: invest in nonprofit organizations as an individual venture philanthropist — Geoffrey Boisi, Stanley Druckenmiller, Marion Sandler

These options are not mutually exclusive; philanthropists might engage in a combination of them depending on their knowledge, skills, available time, and goals.

Institutional Venture Philanthropy

In addition to individuals as potential adopters of venture philanthropy, there may be some potential with institutional donors. Our interviews with leaders of traditional foundations and venture philanthropists confirmed that a shift in the core practice and beliefs of an established foundation is a long-term and potentially wrenching transformation. Some of our interviews suggested that the organizational structures and skill sets of many current foundations and philanthropists are not aligned to support a VP approach. For example, many may not have staff trained to assess and support the development of the organizational capacity of grantees, or may maintain too high a number of grants per staff member to allow for more in-depth organizational support. Therefore, switching costs between traditional philanthropy and VP can be quite high. This may explain why we have found only one example of a legacy foundation, the Edna McConnell Clark Foundation, embracing the practices of venture philanthropy. Having said that, not one of our interviewees questioned the effectiveness of venture philanthropy for service delivery organizations as currently deployed and when well implemented. Nor did anyone put forth a model that they thought was more effective for scaling service delivery organizations.

Another possible reason for the resistance to VP by established foundations was the introduction of venture philanthropy in the late 1990’s. It was, according to some interviewees, positioned less as one possible alternative to giving and more as “the” solution to “bad philanthropy.” This positioning created an antipathy to VP from traditional foundations that still lingers in some quarters. However, this resistance may be diminishing with the success in having foundations allocate a portion of their giving to funds managed by established VP firms.\(^h\) This openness to accepting venture philanthropy was bolstered by the formation of the government’s Social Innovation Fund, new partnerships like Big Bang Philanthropy, and the fund aggregation approaches of EMCF and New Profit. There is a possibility that these vehicles will encourage traditional funders to increase their VP experiments and ultimately shift more of their grants to a VP approach.

\(^h\) An example of this is the Edna McConnell Clark Foundation’s True North Fund, which pools funds from investors such as The Annie E. Casey Foundation, The William and Flora Hewlett Foundation, The Kresge Foundation, Open Society Foundation, and The Wallace Foundation.
Accelerating the Growth of Venture Philanthropy

We end this paper looking ahead. An overarching question for this paper and a convening of venture philanthropists, nonprofit practitioners, and thinkers at Harvard Business School in April 2013 is:

What, if anything, might be done to encourage the more deliberate growth of Venture Philanthropy among individuals and institutions in the United States?

The growth in the U.S. in the number of VP organizations and the practice of VP has been organic and, by any measure, slow. Despite the analysis in this paper, the reasons for this lack of growth, given the growing number of high net worth individuals interested in philanthropy, are not clear. Is it due to individual donor preferences? Is it because there is no mechanism to widely spread the information about the social returns VP has generated? Is the current amount of money dedicated to VP adequate for funding the capable social entrepreneurs and effective organizations able to scale? Or, is it because there are no organizations responsible for promoting the growth of venture philanthropy? It would be helpful to the field if organized research regarding VP’s track record and the future trajectory of VP were undertaken to answer these kinds of questions.

One model for supporting and enabling VP was launched in Europe in 2004 as the European Venture Philanthropy Association (EVPA) and in Asia as the Asian Venture Philanthropy Network (AVPN) in 2011. Today EVPA has over 160 members from 22 countries, which include both organizations engaged only in venture philanthropy, as well as those interested in evidence-based grant making. Members include traditional and business foundations. AVPN has over 120 members in 19 countries with similar member profiles. The goal of both organizations is to promote the development of venture philanthropy within their region. Both organizations provide those interested in venture philanthropy with a suite of resources ranging from professional training workshops to research in VP best practices, as well as a regional network of practitioners with whom to connect and collaborate. It remains unclear if this kind of enabling organization would be successful in the U.S., or who might take on the challenge of developing it.

Ongoing Questions for Venture Philanthropists

Because of the apparent results of VP, many in the field are asking how or whether VP can extend its ability to solve societal problems at scale. Some of the most significant challenges that venture philanthropists and nonprofit practitioners are currently wrestling with are:

- **Massive scale / population-level change**: While VP has helped to scale organizations to a level affecting thousands of beneficiaries, what will be VP’s role in creating solutions to social problems at a massive, societal level of scale?

- **Sustainability**: What are different paths that organizations have found to sustainability (e.g. government, earned income, philanthropy, or all of the above)? Are organizations in VP portfolios more likely to achieve sustainability? What is VP’s role in helping organizations achieve long-term sustainability and in further developing nonprofit capital markets?

- **Role of government / systems change**: Many nonprofits in the portfolios of VPs have programs that are deeply intertwined with government funding, systems, and policies. How do – and how should – organizations in VP portfolios interact with government? What needs to change – in nonprofits, VPs, and government – to truly “scale what
works”? What is government’s role in responding to the previous two points of megascale and sustainability? What should be VP’s role in advocating for government policies and programs that advance approaches aligned with core VP principles (e.g. SIF, i3, pay-for-success/social impact bond pilots, etc.)?

- **Role of measurement** (evaluation, performance measurement, and performance management): How does VP measure what works and improve over time? What are the most important lessons learned about these issues over the past decade — what is needed to support the further scaling of “what works”?

- **Seed investment**: How does VP more deliberately provide the seed capital for impact investing? What benefits should accrue to nonprofit organizations and/or donors if they do?
Exhibit 1 Interviewees

Matt Bannick, Managing Partner, Omidyar Network
Charles Best, Founder and CEO, Donors Choose
Jeffrey L. Bradach, Managing Partner and Co-Founder, The Bridgespan Group
Paul Brest, President Emeritus, The William and Flora Hewlett Foundation
Michael Brown, Co-Founder and CEO, City Year
Phil Buchanan, President, The Center for Effective Philanthropy
Anne Marie Burgoyne, Portfolio Director, Draper Richards Kaplan Foundation
Simon Chadwick, CEO, Asian Venture Philanthropy Network
Gerald Chertavian, Founder and CEO, Year Up, Inc.
Mike Feinberg, Co-Founder, KIPP (Knowledge Is Power Program)
Lance Fors, Board Chair, Social Venture Partnerships and Silicon Valley Social Venture Fund
Paula Goldman, Director of Knowledge and Advocacy, Omiydar Network
Darrell Hammond, Founder and CEO, Kaboom
Charles Harris, Portfolio Manager and Director of Capital Aggregation, Edna McConnell Clark Foundation
Amy Herskovitz, Director of Social Entrepreneurship, Pershing Square Foundation
Vanessa Kirsch, Founder and Managing Director, New Profit Inc.
Liz Luckett, Director of Impact Investing, Pershing Square Foundation
Lenny Mendonca, Director, McKinsey & Company
Doug Miller, Co-Founder, European Venture Philanthropy Association, and Chairman, Asian Venture Philanthropy Network
Mario Morino, Co-Founder and Chairman, Venture Philanthropy Partners
Rebecca Onie, Co-Founder and CEO, Health Leads
Jeff Raikes, CEO, The Bill and Melinda Gates Foundation
Nancy Roob, President and CEO, The Edna McConnell Clark Foundation
Paul Shoemaker, Executive Connector, Social Venture Partners Seattle
Kevin Starr, Managing Director, The Mulago Foundation
Thomas J. Tierney, Chairman and Co-Founder, The Bridgespan Group
Diana Wells, President, Ashoka
Andrew Youn, Founder, Senior Partner, and Executive Director, One Acre Fund
Exhibit 2 Nonprofit Organizations Profiled
Note that the financial data included for the majority of the organizations below are based on publicly available tax returns for the most recent year available (2010 or 2011), and as such may not accurately reflect current total revenue and assets.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Founding Date</th>
<th>About</th>
<th>Total Revenue</th>
<th>Total Assets</th>
<th>Web Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizen Schools</td>
<td>1995</td>
<td>Citizen Schools is a national organization that extends the school day by providing after school programming for middle school students in low-income communities in 8 states.</td>
<td>$27,529,111</td>
<td>$16,431,767</td>
<td>citizenschools.org</td>
</tr>
<tr>
<td>City Year</td>
<td>1988</td>
<td>Operating in 24 cities in the U.S., City Year has a long-term impact goal of reducing the U.S. school dropout rate by placing more than 1,750 full-time volunteers (City Year corps members) with 157 of the nation’s lowest-performing public schools to act as tutors, mentors, and role models in the 3rd through 9th grades.</td>
<td>$83,740,493</td>
<td>$62,350,450</td>
<td>cityyear.org</td>
</tr>
<tr>
<td>Health Leads</td>
<td>1996</td>
<td>Health Leads partners with hospitals and health centers, utilizing trained college student volunteers to connect patients with basic resources such as food, heat, and other needs that impact health. Since 2010, Health Leads has worked with over 23,000 patients and operates in 6 cities in the U.S.</td>
<td>$7,016,817</td>
<td>$13,129,364</td>
<td>healthleadsusa.org</td>
</tr>
<tr>
<td>Kaboom</td>
<td>1996</td>
<td>KaBOOM! is a national organization that has built 2,200 playgrounds in partnership with community volunteers. Its ultimate goal is to have “a place to play within walking distance of every child in America.”</td>
<td>$21,809,521</td>
<td>$11,624,357</td>
<td>kaboom.org</td>
</tr>
<tr>
<td>KIPP (Data provided here for one KIPP Houston branch as an example. Each city is a separate 501c3. )</td>
<td>1994</td>
<td>KIPP (Knowledge Is Power Program) is a network of public charter schools “with a track record of preparing students in underserved communities for success in college and in life.” KIPP operates 125 schools in over 20 states, serving more than 41,000 students.</td>
<td>$78,691,156 (KIPP Houston only)</td>
<td>$162,995,329 (KIPP Houston only)</td>
<td>kipp.org</td>
</tr>
<tr>
<td>Nurse-Family Partnership</td>
<td>2003</td>
<td>Nurse-Family Partnership provides support to low-income first-time mothers from pregnancy through the child’s second year through home visits from registered nurses. NFP operates in 20 states and currently has 23,935 families enrolled.</td>
<td>$4,427,277</td>
<td>$19,684,552</td>
<td>nursefamilypartnership.org</td>
</tr>
<tr>
<td>One Acre Fund</td>
<td>2005</td>
<td>One Acre Fund provides small-scale farmers with the education, seed and fertilizer, and flexible payments to access markets. OAF currently serves over 135,000 farm families in Kenya, Rwanda, and Burundi.</td>
<td>$18,060,057</td>
<td>$14,316,591</td>
<td>oneacrefund.org</td>
</tr>
<tr>
<td>Year Up</td>
<td>2000</td>
<td>Year Up is a one-year training and work experience program for low-income young adults (ages 18-24) that includes hands-on skills, college credits, and internships. Operating in 9 cities across the U.S., Year Up has served over 6,000 young adults since inception.</td>
<td>$46,444,194</td>
<td>$49,421,976</td>
<td>yearup.org</td>
</tr>
<tr>
<td>-----------------</td>
<td>------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>Youth Villages</td>
<td>1987</td>
<td>Youth Villages provides in-home and residential care to youth in foster homes and/or the juvenile justice system, working with over 20,000 children and families annually in more than 20 states.</td>
<td>$158,937,279</td>
<td>$119,386,049</td>
<td>youthvillages.org</td>
</tr>
<tr>
<td>YouthBuild USA</td>
<td>1990</td>
<td>YouthBuild USA is a full-time program for young adults ages 16 to 24 that combines working to attain a GED or high school diploma with job training through building affordable housing in their communities. There are currently 273 YouthBuild programs in 46 states, which engage 10,000 young adults annually.</td>
<td>$26,382,610</td>
<td>$19,447,643</td>
<td>youthbuild.org</td>
</tr>
</tbody>
</table>

Citizen Schools Sources: [http://www.citizenschools.org/about/](http://www.citizenschools.org/about/)  
Financials y.r. ended 06/30/2012. [http://www.guidestar.org/FinDocuments/2012/043/259/2012-043259160-08a9149b-9.pdf](http://www.guidestar.org/FinDocuments/2012/043/259/2012-043259160-08a9149b-9.pdf)

City Year Sources: [http://www.cityyear.org/about.aspx](http://www.cityyear.org/about.aspx)  

Health Leads Sources: [https://healthleadsusa.org/about/our-history/](https://healthleadsusa.org/about/our-history/)  
[https://healthleadsusa.org/locations/](https://healthleadsusa.org/locations/)


Kaboom Sources: [http://kaboom.org/about_kaboom/our_mission_vision](http://kaboom.org/about_kaboom/our_mission_vision)  


KIPP Sources: [http://www.kipp.org/about-kipp](http://www.kipp.org/about-kipp)


Nurse-Family Partnership Sources: [http://www.nursefamilypartnership.org/about/Mission-Vision-Values](http://www.nursefamilypartnership.org/about/Mission-Vision-Values)  
[http://www.nursefamilypartnership.org/assets/PDF/Fact-sheets/NFP_Snapshot](http://www.nursefamilypartnership.org/assets/PDF/Fact-sheets/NFP_Snapshot)


One Acre Fund Sources: [http://www.oneacrefund.org/about_us/purpose_vision_values](http://www.oneacrefund.org/about_us/purpose_vision_values)


Year Up Sources: [http://yearup.org/about/main.php?page=vision](http://yearup.org/about/main.php?page=vision)  


Youth Villages Sources: [http://www.youthvillages.org/](http://www.youthvillages.org/)


YouthBuild USA Sources: [https://youthbuild.org/mission-and-philosophy-0](https://youthbuild.org/mission-and-philosophy-0)  
[https://youthbuild.org/](https://youthbuild.org/)

Exhibit 3  Examples of Venture Philanthropy Enabling Sustainability

The following examples were provided by four venture philanthropy organizations in response to our inquiry for examples of VP enabling sustainability.

Edna McConnell Clark Foundation

Youth Villages, a national nonprofit based in Memphis, TN, serves youth ages 6–22, many of whom have cycled in and out of foster care and/or are involved in the juvenile justice system. The organization utilizes a continuum of evidence-based in-home and residential programs that has been shown to produce lasting results for young people with success rates twice that of traditional services at one-third of its cost, setting young people on a path to healthy adulthood by boosting their academic achievement, helping them avoid criminal activity, and assisting them in securing employment.

With the support of EMCF’s Growth Capital Aggregation Pilot, Youth Villages secured $40 million in growth capital from 13 co-investors to underwrite its growth between 2007-2012. With this investment, the organization invested in its internal capacity so it could both expand in current geographies as well as establish sites in five new states. The capital made it possible for Youth Villages to pursue strategic growth opportunities until the organization was able to secure local and state public funding to cover its services for disadvantaged youth on an ongoing basis. By the end of EMCF’s investment (in 2012), Youth Villages could sustainably support its larger operations without the need of additional growth capital from nonprofit co-investors. Currently, Youth Villages serves 18,000 youth in 11 states and Washington D.C. with an operating budget of $191 million.

Source: Company.

New Profit Inc.

New Profit’s four-year initial investment in Year Up began in 2005 and was a combination of both financial support and consulting services. With a target population of 1.4 million urban young adults in the US, Year Up worked with New Profit to hone a social change model and growth plan designed to scale its core student program while also pursuing broader impacts such as policy change. New Profit worked with Year Up to revise its management dashboard, develop a growth capital fundraising campaign, and provide executive coaching for the organization’s senior team. Over the course of New Profit’s investment, Year Up’s revenues grew from $3.5 million in 2004 to $36.3 million in 2010, and number of lives touched annually grew from 120 in 2004 to 1,023 in 2010. Year Up successfully closed a $20 million capital campaign to support its five-year growth strategy. By December 2010, New Profit’s support totaled $1,910,000 in total funding and a value of $1,655,320 in consulting resources. By the end of New Profit’s initial investment Year Up was able to sustain operations in nine cities and had an operating budget of $47 million.

Following this successful growth, Year Up launched an effort to pilot their Million Person Model with the goal of serving 1 million youth by 2016. Recognizing this would not be possible with a site-by-site approach, the Million Person Model is designed to implement the core model in the context of community colleges leveraging their existing infrastructure to reduce costs and the student population to reach greater numbers of youth. To support this new phase of growth, in 2012 Year Up began a four-year $55 million Opportunity Campaign. As Year Up embarked on this next exciting growth strategy, New Profit re-invested in Year Up through its Pathways Fund, a fund supported by
the Social Innovation Fund (SIF). New Profit continues to provide strategic support to Year Up in addition to its monetary investment to ensure successful scale and sustainability of their impact. Currently operating in 11 cities across the U.S. with an operating budget of $60 million in 2013, Year Up has served over 7,525 young adults since inception.

Source: Company.

Omidyar Network

In its interactions with non-profit grantees, Omidyar Network (ON) embraces many core tenets of the venture philanthropy approach. The firm gives large operating grants and partners with grantee organizations to create a path towards both scale and sustainability – with a strong emphasis on increasing flows of earned income. ON believes earned income is important for three reasons: 1) it reduces a non-profit’s dependency on any of its investors; 2) it provides capital for the organization to scale; and 3) it ensures the non-profit is delivering value to its customers.

Eight of ON’s non-profit grantees have achieved more than 75 percent sustainability through earned income, with three at or above 100 percent sustainability.1 Omidyar Network worked constructively with these organizations to achieve these outcomes. While many executives at these eight organizations had given substantial thought to sustainability previous to engaging with ON, some felt they needed two key resources to be able to succeed. The first was core operating support that would enable them to invest in their own growth – rather than piecemeal project support that is the norm given by U.S. foundations. The second was outside expertise to help them shift the model from grant-based fundraising to revenue-based models.

For example, when the Omidyars first engaged with Guidestar in 2002, the organization had two percent in earned income. The Omidyars first participated as part of a consortium of foundations to support Guidestar. They later provided an additional $3.7m in core operating support and worked with Guidestar on a plan to increase sustainability, including refining their products and technology systems. Guidestar is now at 91 percent sustainability.

By contrast, when ON first invested in DonorsChoose.org in 2005, the organization had already been thinking a lot about sustainability, but felt financially constrained in their ability to execute on their plans. ON saw its role as similar to a lead investor; it not only committed $7.25m across three funding rounds, it also helped get several other funders to participate. ON’s funding was focused on helping DonorsChoose.org grow nationally and scale to reach sustainability. This capital helped DonorsChoose.org increase their earned income from ten percent of operating expenses to 102 percent a year ahead of schedule.

More unusually, Omidyar Network recently worked with Endeavor, a non-profit organization, to support the creation of an innovative, passive co-investment venture fund to support its own work. Endeavor, which works to spur high-impact entrepreneurship in the global growth markets, had relied on grant support even while it played a critical role in spurring private sector development. ON provided an anchor funding of five million dollars to help the organization create Endeavor Catalyst, a fund with a $50m target. The fund’s investment returns not only support future Endeavor Entrepreneurs’ venture rounds, but also Endeavor’s expansion, putting the non-profit on the path towards less dependency on grants. Endeavor Catalyst had its first partial exit in January 2013, which

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1 Sustainability was defined as percentage of budget met by earned income. As of 2011 the percentages were as follows as of 2011: Wikimedia 129%; DonorsChoose.org 102%; Global Giving 101%; MDLF 95%; GuideStar 91%; KaBOOM! 87%; Bridgespan 81%; DoSomething.org 79%.
reflected a return multiple of 2x. In just one year, Endeavor has early indication of the potential of its long-term sustainability model.

Sustainability is not a one-size-fits-all model. Earned income goals will vary for non-profits depending on the issue they work on and the income levels of their target populations. Nonetheless, Omidyar Network believes that the success of many of its non-profit grantees shows the benefits of a venture philanthropy approach to funding. Large, early grants allow organizations to invest in their own sustainability and scale – in a way that piecemeal project funding makes more difficult.

Source: Company.

Venture Philanthropy Partners

See Forever Foundation is a nonprofit dedicated to creating alternative educational opportunities for youth in low-income urban communities. Founded in 1997 with a focus on youth in the juvenile justice system, See Forever launched the Maya Angelou Public Charter School in 1998, initially serving 85 students throughout the District of Columbia.

Venture Philanthropy Partners (VPP) entered into a five-year investment partnership with See Forever in 2002 totaling $2.44 million to support See Forever’s goals of expanding to additional schools, improving student outcomes, creating a distinctive, codified curriculum and program, and becoming a national model for alternative learning environments. During the VPP investment period, See Forever accomplished its goals, including improving graduation rates and other outcomes for students, strengthening its management team, developing its fundraising and outcomes management capabilities, and doubling the number of students served, which led to developing a small network of schools serving nearly 600 students by 2010. In terms of financial sustainability, See Forever more than doubled its operating budget from $3 million to nearly $8 million; secured new sources of funding totaling $5 million from the Gates Foundation, Edna McConnell Clark Foundation, Charity Works, and Walton Foundation, as well as government funding; and successfully negotiated a contract with the Department of Youth Rehabilitation Services to run the Maya Angelou Academy to provide education for youth in long-term detention, as well as to run the Transition Center to assist with their transition after completing their juvenile detention. Additionally, by leveraging VPP’s many contacts in the region, See Forever was able to forge a partnership with DC Public Schools to open a high school in what had been a public middle school, bringing their programming to one of the city’s poorest communities.

Source: Company.
Exhibit 4  Assessing an Organization’s Evidence of Effectiveness: Four Levels

The Edna McConnell Clark Foundation assesses an organization’s evaluations and other data to ascertain the quality and rigor of the evidence that its program(s) are having a measurable impact on youth outcomes. We have developed a framework that categorizes a program’s evidence of effectiveness on one of four levels—from apparent at the low end of the continuum to proven at the high end. In the chart below, the first column defines each level and indicates what an organization should know about the effectiveness of its programs at that level. The second column specifies the kinds of information an organization must collect, and the types of evaluation activities required, to reach that particular level.

<table>
<thead>
<tr>
<th>Proven Effectiveness</th>
<th>Key Characteristics of Data Collection and Evaluation Activities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The program’s impact on</td>
<td>• An independent, external evaluator creates and conducts an</td>
</tr>
<tr>
<td>participants has been</td>
<td>evaluation of program outcomes.</td>
</tr>
<tr>
<td>confirmed through experimental research.</td>
<td>• The sample is sufficiently large to conclude statistically that the program is responsible for the difference in outcomes achieved by its participants versus the control group.</td>
</tr>
<tr>
<td>A program at this level should be able to answer the following question: Are there statistically significant differences in outcomes for our program participants versus people in a randomized control group?</td>
<td>• Ideally, a randomized controlled trial is undertaken; participants are randomly assigned to one of two groups one in which they receive program services, and one in which they do not. Outcome data for both groups are collected and compared.</td>
</tr>
<tr>
<td>Demonstrated Effectiveness</td>
<td>Under some circumstances, a third-party quasi-experimental evaluation that compares participants to a control group that is not randomly assigned may represent the highest proof point a program is capable of reaching.</td>
</tr>
<tr>
<td>Based on systematically</td>
<td>Key Characteristics of Data Collection and Evaluation Activities:</td>
</tr>
<tr>
<td>collected data that compares</td>
<td>• An independent, external evaluator has carefully evaluated the program and services, target population, desired outcomes and indicators measuring success.</td>
</tr>
<tr>
<td>program participants with</td>
<td>• The sample is sufficiently large to conclude statistically that the program is responsible for the difference in outcomes achieved by its participants versus the comparison group.</td>
</tr>
<tr>
<td>similar people who are not</td>
<td>• Participants outcomes are measured against the outcomes of a carefully chosen comparison group.</td>
</tr>
<tr>
<td>receiving a program’s services, an organization can substantially conclude that young people are benefiting from program participation.</td>
<td>• Those chosen groups (participant and comparison) are the same on measured characteristics such as demographic and background and likely to be the same on unmeasured characteristics such as motivation.</td>
</tr>
<tr>
<td>Do participants experience</td>
<td><strong>High Apparent Effectiveness</strong></td>
</tr>
<tr>
<td>better outcomes than</td>
<td>Based on systematically collected data, young people are</td>
</tr>
<tr>
<td>comparable people who are</td>
<td>likely benefiting as intended from participating in a specific program.</td>
</tr>
<tr>
<td>not in the program?</td>
<td>A program at this level should be able to answer the</td>
</tr>
<tr>
<td></td>
<td>following questions: Who is accessing your services? What</td>
</tr>
<tr>
<td></td>
<td>programs do they participate in? What outcomes do they</td>
</tr>
<tr>
<td></td>
<td>achieve?</td>
</tr>
<tr>
<td>Apparent Effectiveness</td>
<td>Basic information is collected through a number of ways, such</td>
</tr>
<tr>
<td>Though a process for</td>
<td>as ad hoc systems for tracking participant attendance, or the collection of anecdotal stories. Even if a performance management system is in place, the organization is not yet systematically collecting or using data as described under “high apparent effectiveness.”</td>
</tr>
<tr>
<td>systematically collecting and analyzing data does not yet exist, the organization can assume, with the data it has on hand, that young people are benefiting from participating in a specific program.</td>
<td>Outcomes may or may not be tracked. EMCF believes most nonprofits, large and small, are at this level.</td>
</tr>
</tbody>
</table>
Exhibit 5  Profile of Venture Philanthropy Organizations Discussed
Note that the financial data included for the majority of the organizations below are based on publicly available tax returns for the most recent year available (2010 or 2011), and as such may not accurately reflect current total revenue and assets.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Founding Date</th>
<th>About</th>
<th>Total Giving (annual distribution)</th>
<th>Total Assets</th>
<th>Web Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashoka</td>
<td>1980</td>
<td>&quot;Ashoka strives to shape a global, entrepreneurial, competitive citizen sector: one that allows social entrepreneurs to thrive and enables the world’s citizens to think and act as changemakers.&quot; Ashoka’s programs include fellowships for social entrepreneurs (nearly 3,000 fellows in over 60 countries), promoting entrepreneurial networks, and building social sector infrastructure.</td>
<td>$5,736,846</td>
<td>$85,527,912</td>
<td>ashoka.org</td>
</tr>
<tr>
<td>Draper Richards Kaplan Foundation</td>
<td>2001</td>
<td>&quot;The Draper Richards Kaplan Foundation seeks to dramatically improve the lives of people and the world around us through innovative strategies, systems changing approaches, and disrupting technologies. Our goal is to find social entrepreneurs with dynamic ideas and nurture them at the early stages with maximum leverage and total commitment.&quot; DRKF provides $300,000 in startup funding over 3 years to promising early-stage organizations around the world.</td>
<td>$1,300,000</td>
<td>$18,456,938</td>
<td>drkfoundation.org</td>
</tr>
<tr>
<td>Echoing Green</td>
<td>1987</td>
<td>Echoing Green’s central program is its two year fellowship, which provides more than $2 million in seed funding to social entrepreneurs globally.</td>
<td>$913,638</td>
<td>$5,784,569</td>
<td>echoinggreen.org</td>
</tr>
<tr>
<td>Edna McConnell Clark Foundation</td>
<td>1969</td>
<td>&quot;The Edna McConnell Clark Foundation seeks to transform the life trajectories of vulnerable and economically disadvantaged youth. We make large, long-term investments, frequently partnering with other funders, and promote effective public and private support of nonprofits with a potential for growth and compelling evidence that they can help more young people become successful, productive adults.” In 2012, EMCF’s 18 grantees served nearly 140,500 youth across the U.S.</td>
<td>$41,015,839</td>
<td>$831,854,466</td>
<td>emcf.org</td>
</tr>
<tr>
<td>The Mulago Foundation</td>
<td>1993</td>
<td>&quot;Mulago looks for the best solutions to the biggest problems in the poorest countries. We are unabashedly obsessed with impact: measuring it, funding it, and scaling it up. Our job is to find those most able to create change and get them what they need to do it.” Mulago focuses on issues of livelihood, health, education, and conservation globally.</td>
<td>$7,130,134</td>
<td>$171,238,734</td>
<td>mulagofoundation.org</td>
</tr>
<tr>
<td>New Profit Inc.</td>
<td>1998</td>
<td>&quot;New Profit is a nonprofit social innovation organization seeking to increase social mobility by strengthening, connecting and amplifying the best ideas across the nation.&quot;</td>
<td>$10,809,587</td>
<td>$35,554,703</td>
<td>newprofit.com</td>
</tr>
<tr>
<td>NewSchools Venture Fund</td>
<td>1998</td>
<td>&quot;NewSchools is a nonprofit venture philanthropy firm working to transform public education for low-income children.” NewSchools’ portfolio includes over 100 organizations across the U.S., including charter schools and education technology organizations.</td>
<td>$13,638,140</td>
<td>$55,509,886</td>
<td>newschools.org</td>
</tr>
<tr>
<td>Organization</td>
<td>Year</td>
<td>Statement</td>
<td>Financials</td>
<td>Website</td>
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<td>Omidyar Network</td>
<td>2004</td>
<td>&quot;As a philanthropic investment firm, we support market-based approaches with the potential for large-scale, catalytic impact. Toward that end, our investing style transcends typical boundaries that separate for-profit investing and traditional philanthropy. Because we believe that each sector has a role, we make investments in for-profit companies as well as grants to nonprofit organizations. Regardless of the sector, we invest in organizations that have the potential to embody innovation, scale, and sustainability or help bring them about within their industry.&quot;</td>
<td>$20,615,982</td>
<td>omidyar.com</td>
<td></td>
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<tr>
<td>Pershing Square Foundation</td>
<td>2006</td>
<td>&quot;We invest in organizations that use innovative and scalable solutions to attack the compounding roots of poverty: poor health, injustice, substandard education, economic limitations and isolated communities.&quot;</td>
<td>$24,566,414</td>
<td>pershingssquarefoundation.org</td>
<td></td>
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<tr>
<td>Skoll Foundation</td>
<td>1999</td>
<td>&quot;The Skoll Foundation drives large scale change by investing in, connecting and celebrating social entrepreneurs and the innovators who help them solve the world’s most pressing problems.&quot; Skoll’s flagship program is the Skoll Awards for Social Entrepreneurship, which has awarded more than $111 million to social entrepreneurs around the world.</td>
<td>$15,696,091</td>
<td>skollfoundation.org</td>
<td></td>
</tr>
<tr>
<td>Venture Philanthropy Partners</td>
<td>2000</td>
<td>&quot;VPP invests in high-performing nonprofit organizations that are serving the core healthy developmental, learning, and educational needs of children from low-income families&quot; in Washington D.C.</td>
<td>$1,906,857</td>
<td>vppartners.org</td>
<td></td>
</tr>
</tbody>
</table>

Ashoka Data Sources:  https://www.ashoka.org/about https://www.ashoka.org/mission
Draper Richards Kaplan Foundation, Sources:  Anne Marie Burgoyne, "Venture Philanthropy - Corrections about DRK," e-mail message to authors, April 30, 2012.
Echoing Green Sources:  http://www.echoinggreen.org/about http://www.echoinggreen.org/about
Mulago Foundation, Sources:  http://www.mulagofoundation.org/?q=about-mulago http://www.mulagofoundation.org/
New Profit Inc. Source: Company.
NewSchools Venture Fund Sources:  http://www.newschools.org/history http://www.newschools.org/team
Omidyar Network Sources:  http://www.omidyar.com/about
Pershing Square Foundation Sources:  http://www.pershingsquarefundation.org/ http://www.pershingsquarefundation.org/
Skoll Foundation Sources:  http://www.skollfoundation.org/about/ http://www.skollfoundation.org/about/mission/
Endnotes


6 Andrew Youn, interview by authors, April 10, 2012.

7 Jeffrey L. Bradach, interview by authors, January 25, 2013.

8 Matthew Bannick, interview by authors, April 12, 2012.

9 Rebecca Onie, interview by authors, June 20, 2012.

10 Jeff Raikes, interview by authors, March 29, 2012.


16 Doug Miller, interview by authors, March 12, 2012.


20 Bradach and Kim, “Why More Non-Profits are Getting Bigger.”

21 Michael Brown, interview by authors, June 21, 2012.

22 Mike Fienberg, interview by authors, June 20, 2012.


25 Jeffrey L. Bradach, interview by authors, April 4, 2012.

26 Michael Brown, interview by authors, June 12, 2012.

27 Vanessa Kirsch, interview by authors, March 21, 2012.

28 Amy Herskovitz, interview by authors, February 2, 2012.

29 Diana Wells, interview by authors, June 27, 2012.

30 Matthew Bannick, interview by authors, April 12, 2012.

31 Phrase provided by Andrew Youn, interview by authors, April 10, 2012, but sentiment articulated in other interviews.


36 Charles Harris, interview by authors, October 4, 2012.


38 Jeffrey L. Bradach, interview by authors, January 25, 2013.


41 Tom Tierney, interview by authors, March 19, 2012.

42 Bradach and Kim.


48 Tom Tierney, interview by authors, March 19, 2012.

49 Vanessa Kirsch, interview by authors, March 21, 2012.


53 EVPA, “About Us.”


56 Patrick Lawler, “HBS request for Youth Villages data,” e-mail message to Sarah Appleby, March 3, 2012.