

Venture Philanthropy: Leveraging Compassion with Capacity

An address by Mario Morino, Chairman of the Morino Institute, for the [Northern Virginia Technology Council \(NVTC\)](#), Titans of Technology, March 8, 2001.

© Morino Institute, March 2001. All rights reserved.

Thank you. It is a pleasure to be here today, to have this opportunity to speak with you, to celebrate the good work of the Northern Virginia Technology Council, and to commend you for caring about the community in which you live and work.

The impact of your caring actions -- demonstrated in today's announcement of the formation of the Northern Virginia Technology Council Foundation -- is going to be felt throughout the region. And for that, I congratulate and thank the leadership of NVTC and you for making it possible. But I also want to suggest that NVTC and its members are in a special position to impact philanthropy in Northern Virginia and the National Capital region.

As you know all too well, the Internet and the New Economy are changing every aspect of our society. Philanthropy is no exception. Today, I want to share a few thoughts about how we can expand our approach to philanthropy to include the promise, prosperity and best practices of the New Economy and why NVTC's action is so important.

I hope to convey two points. First, change is coming to the nonprofit world, and I'll outline my beliefs about why and how. Second, I'll suggest a new philanthropic model that can help facilitate this change -- a model built on the idea that by helping many nonprofits to build stronger organizations, we can help them empower themselves to serve people in need more effectively. And a model that NVTC and some of its members have in various ways already demonstrated.

Before I get started, I'd like to say a word about how I've arrived at this point -- from software developer to engaged philanthropist.

My own story may not be too different from many of yours. For more than 30 years, I was in the software industry and built a company from the ground up -- like many of you here today. I retired from business in 1992 and shortly after established the Morino Institute through which I could direct my energies and experiences to helping others, particularly young people.

I had been blessed with good fortune and wealth beyond my wildest dreams. And I wanted to use this blessing to benefit others in some way. But as I quickly learned, a desire to help and the ability to make an impact are very different things. I didn't know how I could make an impact.

I spent a year traveling the country seeking the advice and counsel of more than 700 people -- clergy, political leaders, educators, business executives, foundation executives and others.

And it was here that I first learned and was pleasantly surprised by the many NVTC players and alumni that had been already doing so much to make a difference in the lives of others -- and quietly so -- in their philanthropic efforts:

Ed and Marilyn Bersoff with NV Community College;
Earle Williams and Wolftrap;
Mike Daniels and the Boy Scouts;
Dan Bannister and Easter Seals;
Don Beyer and ARC;
Russ Ramsey and Boys & Girls Clubs;
Kathy Clark and the partnership that her firm had established with Edison High School;
And these are a few of what are dozens of such examples I came across.

These actions here in Northern Virginia and the National Capital Region are the beginning of a new wave of philanthropy in America. And, we're seeing a growing interest and engagement in what

some have called "high impact" philanthropy in Silicon Valley, Seattle, Austin, Boston, and New York -- and the most vibrant may be here right in our own region.

Why philanthropy? It's a logical extension of you, your values and your success. Be it faith based, from the values of your family, or cause driven by an event in your life, many of you will become involved in philanthropy -- and many of you already are. With your know how, your caring and your resources, you can make a difference in the lives of others that only seek their own opportunity to improve their lives. And, you can do so at one of those "interesting" times where opportunity and need intersect.

The approaching change in philanthropy is a product of the extraordinary times in which we live. A thriving New Economy, globalization and a new global medium -- the Internet -- are combining forces to make for a smaller, more connected world. But amidst this stunning prosperity, we are also seeing a stunning paradox. As our world grows closer together, our economic and social divides are widening. A recent report by the United Nations found that one of six children in the world's 29 wealthiest nations lives in poverty, including 13 million in the United States. We are moving dangerously close to cementing a permanent underclass in our country.

And this paradox deepens. Even though the New Economy is booming, government investment in the social services has been reduced. And even as this public sector investment shrinks, we ask -- and expect -- nonprofits to shoulder a growing responsibility to address our most vexing social problems.

As it faces this exceptional challenge, the nonprofit sector and the philanthropy that supports it will undergo extensive, if not radical, change. Change will come for many of the same reasons it has already wracked our economy. A flood of new wealth and new expectations is one. The influence of information technology is another. So are new trends in business, like disintermediation and disaggregation -- the splitting apart or stitching together of organizations to produce better results. New trends in financial services introduce the emerging field of philanthropic fund management. And, with forces like privatization and new models for wealth creation for nonprofits, the changing roles of for-profits and nonprofits blur.

These changes add up to an inevitable and dramatic transformation in philanthropy. And that adds up to a dramatic opportunity -- an opportunity to rethink philanthropy in America. One of the biggest leveraging points in helping nonprofits deliver social services more effectively lies in changing the funding system itself. Let me explain why I think that's true.

Strong organizations are the backbone of effective services. Strong organizations can make long -- term plans. Their managers are better able to focus on mission. They invest in management, staff development and infrastructure that allow them to better define goals, measure progress and be accountable for outcomes, while supporting program improvement and growing the organization to scale.

But the way we fund nonprofits prevents them from doing these things well, or, too often, at all. Executives must focus too much on fundraising, not management. Their horizon is often the next grant cycle, not the next performance goal. The standards they are forced to follow deal with programs and process, more than outcomes. Perversely, their funders --rather than the people they really seek to serve -- can end up becoming their primary clients. The assessments to which they are subjected are often a one -- way judgment rather than constructive interaction that helps them to learn and improve.

We ask those in the nonprofit sector to take on our most formidable social problems. But we nearly ensure they can't fully succeed. Because givers often insist on low overhead, nonprofits are limited in their capacity to build strong organizations. They cannot invest enough in the management, technology and other tools they need that are the keys to delivering effective services. For the most part, nonprofits rely on a single financial instrument -- the charitable donation. And after receiving two -- three years of support, they often find their funders moving on to newer program initiatives rather than helping to build further what had been started so well. As a result, their ability to provide quality services and grow is constrained. They are forced into a relentless race for resources

rather than results. Nonprofits can even be driven to alter or veer from their missions in search of programmatic funds.

Is what I present a dramatization? Perhaps to some, but not based on my observations in seven years at the Morino Institute. In fact, many of the problems I am discussing today we learned from social entrepreneurs and activists themselves -- the people most actively involved in their own communities, trying to make the nonprofit sector work. The growing base of foundations, academics, think tanks and community organizations grappling with how to make the nonprofit sector more effective is itself evidence that we have a fundamental problem.

Like all problems, to solve this one, we must move away from the fringes and attack the cause. And I strongly believe the most important challenge -- and, therefore, the most powerful lever for change -- is the funding system itself. If we want nonprofits to deliver effective social services, we need to change the funding mechanism to help them build stronger organizations, ones that are highly effective, sustainable and accountable for outcomes. And, once again, where our efforts, the leadership of the New Economy can be so relevant.

Here is where the exciting times in which we live become so relevant and where NVTC's foundation becomes so important. We can apply the best practices of the New Economy to help create a New Philanthropy whose focus is strong, highly effective organizations with the power to sustain themselves.

The approach has been called "venture philanthropy." It is a relatively new field that has no single accepted approach or commonly agreed upon definition. We define venture philanthropy as the process of adapting strategic investment management practices to the nonprofit sector to build organizations able to generate high social rates of return on their investments. Strategic management assistance is provided to leverage and augment the financial investment made. This approach is modeled after the high end of venture capital investors -- the relatively few who work to build great organizations instead of just providing capital.

In the commercial world, the most successful investors are true strategic partners to the enterprises they fund. Their work starts with the funding instead of ending there. They develop relationships and build trust with the people of the organizations in which they invest. Instead of intruding and directing, they support and consult. Instead of controlling, they become vested partners that share risk. They provide management advice. They help managers deploy technology that helps them achieve their missions. They make long-term commitments that enable businesses to invest in capacity for the long haul rather than simply surviving to the next quarter. More than anything else, they help build great organizations that, in turn, create great value.

Our experience at the Morino Institute suggests that many nonprofits could benefit from a similar approach of strategic investment management. Under this model, rather than a charitable foundation writing a one-time check for two or three years to finance a specified program and then moving on, investors would make a substantial, long-term commitment focused exclusively on building capacity. This commitment would last four to six years and total several million dollars. They would seek nonprofit organizations with both great potential and the commitment to tap that potential to significantly improve the services they provide and expand the number of people who receive them. They would insist that focus be placed on a clear mission and on accountable results that demonstrate a social rate of return on their investment. In addition to gifts of equity -- the investment -- these givers would also share their managerial and technological expertise. They would leverage their network of contacts. They would help organizations empower themselves to achieve their missions instead of trying to redefine them.

In short, a core goal of this model -- as in any investment partnership -- would be to build strong, highly effective organizations that achieve strategic objectives and become financially sustainable.

Financial sustainability is critical if nonprofits are to be free from the constant demands of fundraising. And that means the New Philanthropy, like the New Economy, must think of new, more effective means for fund development and explore ways to help nonprofits create economic value rather than simply redistributing existing wealth.

The Morino Institute has already tried this model of strategic investment partnership on a somewhat smaller scale. It was the basis of the Youth Development Collaborative (YDC) Pilot we led in partnership with four community-based organizations in the District of Columbia. The Pilot helped these organizations integrate the Internet into their work to increase their capacity to offer quality services for youth and improve their overall operations. When successfully completed at the end of this year, we will have invested over \$2.5M, the bulk of which has been focused on the people who make these organizations run, not on hardware and software. We deployed a team with expertise in the area of education and technology to work full-time with our partners. We invested heavily in staff development to enhance the capacity of these organizations. And as word of what we've learned and our partners have accomplished is disseminated, the effort is increasingly being viewed as highly successful and leading edge.

Now we're exploring the strategic investment management model on a larger scale. The Morino Institute, in partnership with the Community Foundation of the National Capital Region and Community Wealth Ventures, has helped establish Venture Philanthropy Partners. Led by Raul Fernandez of Proxicom, Mark Warner of Columbia Capital and myself, a group of business leaders -- many involved with NVTC -- came together to launch this exciting experiment in venture philanthropy. It's mission is to increase the effectiveness of philanthropy in the National Capital region by demonstrating that building high performing nonprofit organizations results in significantly greater social impact.

What are the benefits of this model?

For donors, it offers the potential for a better -- and accountable -- return on their charitable investments. It accommodates their desire for more direct involvement, their hunger to contribute beyond just writing a check and their thirst for knowledge about how to give more effectively.

For nonprofits, this model offers the chance to reach their potential and realize their dreams. They'll have partners. They'll have the support they need to move toward sustainability. They'll have the opportunity to obtain the tools for success. Their leaders will be able to focus more on results rather than securing grants. With increased capacity, they will be more effective in their delivery of services. And they'll be able to use those results -- and this support -- as an engine for continuous internal improvement. Collectively, the results of this approach will also bring new givers into the philanthropic space -- and at younger ages.

For the nonprofit sector -- and others, like government or education -- I believe this approach has the potential to demonstrate a more effective mechanism for funding social programs. I believe it will demonstrate the importance of building strong organizations. And the more funders see demonstrable outcomes, the more they will expect similar results of other efforts in which they are involved. And, I am convinced they will then invest more.

But, ultimately, the most important beneficiaries will be the children and families who depend on the strength of the nonprofit sector. The organizations that serve them will be able to make long-term plans and be agents of long-term hope. When leaders focus more on results rather than grants, children will have more effective resources -- resources like a mentor or an afterschool program. For these children, we seek not just better managed organizations, but better managed lives.

The strategic investment model does not fit the needs of all nonprofits. Nor does it replace existing philanthropy. And that is one of the reasons I was so very pleased when NVTC initiated its work to create the NVTC Foundation. Your Foundation will be an important voice and have an important role in the Northern Virginia community. Your example will help encourage others in the region to become more involved in our community -- and your example will help them understand that it is important to go beyond making a charitable contribution. Your own actions will demonstrate the importance of being engaged in one's community and illustrate the distinctive contribution that those of us of the New Economy can make to have a difference in the lives of others.

This is a new model for philanthropy. But it should not -- it cannot -- be an isolated one. For this venture philanthropy to succeed, it must work together with today's nonprofit and philanthropic sectors. I believe the New Economy has many insights to offer the nonprofit sector. But my years in working with nonprofits have also demonstrated how much we have to learn from -- and how much we have to admire about -- what they already do. We very much need to work together.

Change will come to philanthropy, as it has come to our economy and as it will come to other sectors of our society. Today, we discussed one model for change -- a model that applies only to some corners of the nonprofit world. But in those corners are children whose lives will be saved or squandered based on how effectively they are served by nonprofit organizations.

Today, those organizations are replacing or supporting family and social structures that have eroded. And I know how important those structures are. They were the reason I was able to succeed after growing up in a neighborhood that was not, to say the least, the richest one in Cleveland. Where I was raised, we were short of material things, but we were never without hope. My family and the neighborhood in which we lived gave it to us wrapped in gifts called love, confidence and the encouragement to learn.

In 30 years in the software industry, I participated in the transformation of the economy. I saw theories of value -- and approaches to management -- evolve. I -- like many of you here today -- saw business models that thrived, and others that failed.

So I know -- from a childhood in Cleveland and a career in technology -- that boosting the capacity of nonprofit organizations means the difference between social services that save lives or waste them.

Today, I represent many people like me -- individuals who have enjoyed the financial benefits of the New Economy -- many of you are here this morning. Collectively and individually, we are at a juncture in our lives at which we are seeking a significance beyond financial success. We are a growing force seeking to accelerate change in philanthropy. For us, writing a check is not enough. We need to know that there are positive results -- outcomes to our giving. We need to know that the system will be changed for the better. Anything less is irrelevant.

This sense of engaged philanthropy is what no doubt led NVTC to create its own Foundation.

We believe we can help to rethink and improve one systemic factor limiting success in the delivery of social services -- the mechanism of philanthropic funding. Venture philanthropy is one way to demonstrate this potential.

The NVTC Foundation will incorporate many elements of venture philanthropy, building on the example and culture of NVTC and its members. It will never merely give money to a program without first studying the capacity of the organization and, secondly, without a commitment of personal involvement in the management of the project.

NVTC's greatest community effort has been the Gum Springs Computer Clubhouse -- which is a great example of what NVTC can do and how the new Foundation can benefit from NVTC, its members and relationships. NVTC was the catalyst to raise \$250,000 in funding and in-kind support, encourage the direct contributions of NVTC members of time and resources, and leverage NVTC and member relationships to direct key support to Gum Springs.

NVTC has demonstrated an engaged philanthropy in establishing the Dan Bannister Scholarship Fund that involves so much more than a just being a source for tuition fees, providing orientation, a mentor, and introducing them to NVTC and its network.

NVTC members care about their communities. And, you are part of a vibrant, but surprisingly quiet new base of philanthropy emerging here in the region. Collectively the efforts of the NVTC Foundation, Venture Philanthropy Partners, and the growing number of new private and corporate foundations like the recently announced webMethods Foundation, represent the core of this new

base of philanthropy that offers great promise for Northern Virginia and the National Capital region. And NVTC and the NVTC Foundation will provide a demonstrated leadership that, in turn, will increase the philanthropic engagement of its members and their employee bases.

I hope I've convinced you here this morning that the concept of venture philanthropy -- which mirrors much of what we've all done in growing our own businesses -- has significant merit for philanthropy in Northern Virginia and the National Capital region. The NVTC Foundation can and must be a vital part and voice in the region's evolving philanthropy, just as NVTC has been a leader in the evolution of the region's technology sector. And the NVTC Foundation needs your support -- financially and personally.

Because of NVTC, its member firms and other New Economy successes, the National Capital region is riding a tsunami into the 21st Century. It is ground zero to the New Economies of the Internet in Northern Virginia and bioscience in adjacent suburban Maryland. This region is home to the White House and Capitol Hill, a world center for global organizations, embassies and foreign missions. What better place in the world to demonstrate that the wealth cycle -- from innovation to financial success to life significance and giving -- can be completed? Where better to show that our society -- divided at the start of the 21st Century -- can heal itself?