MORINO INSTITUTE

A New Philanthropy for the New Economy

Remarks by Mario Morino, Chairman, Morino Institute
"Value (and Values) in the New Economy" Conference
Sponsored by TTI/Vanguard
May 9, 2000

Thank you for that introduction.

Others at this conference will advise you on how to leverage the prosperity of the New Economy. My topic is leveraging its purpose.

But before I explore this purpose for the New Economy, let me begin by describing an old industry.

This industry is a stubborn holdout against the ideas and infrastructure that have transformed the rest of our economy. Its investors are disengaged. Its businesses survive on short-term infusions of cash rather than forward-looking investments of capital. Low overhead is more important than building institutions. In this industry, organizations that could form strategic alliances compete for funds rather than collaborating for the future.

If you think this industry is yesterday's news, then think again. Instead, it is tomorrow's hope. If this industry sounds like a competitor you would aspire to subdue, then take another look. Because I am describing a cause each of us hopes will succeed.

This industry is America's nonprofit sector. And it remains shackled by the shortfalls of yesterday's economy at exactly the same time we are asking it to shoulder a growing responsibility for addressing tomorrow's problems. Nonprofits are taking on a more central role as providers of social services—especially as the public sector investment in those services shrinks.

Yet nonprofits are chronically undercapitalized. For the most part, they rely on a single financial instrument, the charitable donation. They operate mostly on a pay-as-you-go basis, forcing their leaders into a permanent race for revenue rather than results.

When foundations give grants to nonprofits, they often target programs, emphasizing individual causes over institutional capacity. Undercapitalization prevents nonprofits from investing in strong organizations. And our insistence on low overhead punishes them if they try.

Nonprofits—which are usually run by organizational founders who specialize in conviction and charisma more than professional management—lack the resources and skills required to build capacity. Too often, donors write checks and walk away rather than making investments and contributing to their success. And since nonprofits concentrate on redistributing wealth rather than creating economic value, they often wind up fighting for their share of the charitable pie rather than making it grow.

These factors would add up to a formula for failure in any private enterprise in America. Few of us would entrust our spare change to an industry with these characteristics. But increasingly, we are entrusting it with our children. None of us would invest in its stock. But we are counting on it to invest in our schools.

Today we depend on the nonprofit sector to address our most vexing social problems. And we are surrounded by constant, compelling reminders that we are not doing nearly enough—that money alone is not enough—that we are not leveraging the full value of our wealth and knowledge to help the nonprofit sector provide effective services to those in need.

Lest you grow concerned that this speech will exhort you to open your wallets to these causes, be assured I will not let you off that easily. I will ask you to contribute a far more valuable resource—your imagination—and to share a far scarcer commodity—your time.

As the nonprofit sector assumes an expanding role for providing social services, contributing to philanthropies is not enough. We must rethink philanthropy itself.

From those of us privileged to be present at the creation of the New Economy, philanthropies need cash. But more than that, they need concepts. Charities seek equity. But they can also benefit from your expertise. Nonprofits don't need a pittance. They need partners.

Across America, energetic people are doing imaginative things in the nonprofit sector. We can leverage their spirit with support, and their compassion with capacity.

The same forces transforming the private sector can be harnessed to drive home real reform—and results—in the nonprofit sector, especially where its role is growing most: providing social services. We can leverage the lessons of the New Economy to build a New Philanthropy.

This New Philanthropy will mirror the New Economy's shift from passive capital allocation to strategic investment management. Smart venture capitalists today are engaged partners in the enterprises they fund. They offer management advice. They are closely involved in strategic decisions. And they make long-term commitments that enable businesses to invest in capacity for the long haul rather than simply surviving to the next quarter.

Imagine a venture philanthropy fund that draws on the lessons of strategic investment management. Rather than a charitable foundation writing a one-time check for a modest amount to fund a single program, this fund would carefully choose a cause and make a substantial, long-term commitment. Instead of funding one program, it would invest in building an effective institution. Rather than insisting on low overhead or immediate results, it would invest the resources nonprofits need to create long-term capacity and ensure their sustainability.

The New Philanthropy, like the New Economy, will create new economic value rather than simply redistribute existing wealth. Instead of being consigned to a beggar's existence, New Philanthropies will be empowered with an entrepreneur's experience.

But don't take my word for it. Ask Gary Mulhair, today the President and CEO of Community Wealth Ventures, a subsidiary of the nonprofit anti-hunger group Share Our Strength. Before his current assignment, Gary spent 15 years leading—and building—Pioneer Human Services in Seattle.

Pioneer had a challenging mission: giving people coming out of prison new skills—and new hope. But Gary had an even bigger idea in mind—a nonprofit institution that could create enduring and growing wealth to finance effective human services. Pioneer sells the metal products that program participants manufacture. Boeing is among its customers. Today the company's equity is $11 million. In 1998, it was a $50 million-a-year firm—providing Pioneer with a sustained, predictable source of funds that enabled them to build and grow an effective human-services organization and continually develop its capacity to deliver services. Pioneer was successful because Boeing, Starbucks and other companies followed "a venture philanthropy" approach—investing money and other strategic support.

Like the New Economy, the New Philanthropy will emphasize the incubation of new organizations to meet specific market needs. In the New Economy, organizations like CMGI and Walker Digital identify inefficiencies or opportunities in the market and help to build businesses to capitalize on them.

This business-formation model can transform the nonprofit sector too. Instead of being limited to organizations that look for worthy causes, New Philanthropies will identify social-service needs and build institutions to meet them.

Just as the New Economy has triggered a shift to equity-based compensation, New Philanthropies will be funded by equity-based contributions. Imagine, for example, a commitment to set aside a fixed percentage of all IPOs for New Philanthropy. This approach would create revenue rather than consuming it—and do it on a staggering scale climbing easily into the billions of dollars.

New Economy innovation is starting to blur the distinction between forprofits and nonprofits. We see new firms being created with a nonprofit element from the outset. Nonprofits are creating more forprofit subsidiaries**.** Equity compensation, solely reserved for the forprofit types, is being applied in imaginative ways to the compensation challenges facing nonprofits.

Finally, like New Economy businesses, New Philanthropy institutions will use technology as a lever for change and an engine for results.

At the Morino Institute, we're launching an exciting experiment in the New Philanthropy that aims to use each of these ideas as a lever for change in the nonprofit sector. We call it Venture Philanthropy Partners, or VPP for short.

The vision of VPP is to use the wealth, resources and know-how created by the New Economy to boost philanthropic giving—and to invest this money to achieve better results for children and the low-income areas in which they live. We want to unlock the potential of children to contribute to—and benefit from—the New Economy.

VPP will choose a small number of innovative organizations that serve children in the Greater Washington area and invest exclusively in helping them build their institutional capacity. Our investments will focus on “pressure points” that can be real levers for change for children—proven successes like athletics, after-school activities and high-quality developmental child care.

We’ll work with these organizations the same way a strategic investment manager would work with a New Economy startup. We’ll choose organizations with strong leadership, good management and a compelling vision—organizations that have the potential to be leaders in their field. We will measure our investments in the millions. We will commit for four to six years. Most importantly, we’ll work to earn their trust as partners.

We’ll provide management advice. We’ll help them better understand how they can integrate technology into their communities to provide more effective services. We’ll help them define clear goals and encourage accountability. And we’ll enter the investment with an exit strategy based on the organization achieving its strategic objectives and financial sustainability.

What are the benefits of this approach?

We believe there’s a real opportunity to help organizations boost their capacity to significantly grow and improve their services to children.

For entrepreneurs and other investors, there’s an enhanced value proposition—an opportunity for a social rate of return on investment that is not only substantial, but measurable and accountable, too. Especially for young entrepreneurs who are tired of the relentless demand for contributions and eager for a relentless display of outcomes, this approach has remarkable appeal. As a result, we believe it will bring new givers—and new amounts of giving—into philanthropy.

That’s what we hope to be.

Let me tell you what we aren’t.

We are not a venture capitalist’s answer to philanthropy. VC is, for the most part, a mercenary business. It is focused on fast investment and even faster returns, and it imposes dramatic consequences for falling short of either. VC serves its purpose. But it is not our purpose.

Our purpose is to boost the capacity of the nonprofit sector to provide services that enrich people’s lives. We seek a real long-term commitment that marries the passion and commitment of the nonprofit world with the efficiencies and advantages of the New

Economy. Both sides can learn. Both sides can benefit. And the winners are the children and families who need support the most.

We are not management gurus with bleeding hearts. We do not seek simply to produce a well-oiled nonprofit sector. If mismanaged organizations were the only problem in today's society, we could all find a worthier cause. The problem is mismanaged lives.

This conference echoes with metrics that chart the extraordinary growth of the New Economy. But consider these measurements too:

Eighteen children in the District of Columbia's public school system have died this year. Eighteen. And countless more are living without hope.

In suburban Montgomery County, Maryland, nearly two-thirds of all high school students failed their final exams in algebra in January. Two-thirds ... doomed, in today's high-tech work force, to fall farther and farther behind.

A couple of weeks ago, in Fairfax County—a rolling haven of affluence in the Northern Virginia suburbs—a four-year-old boy pulled the fire alarm outside his apartment. There was no fire. Instead, there was no food. He was left unattended with his 15-month-old twin brothers, and they were hungry and alone.

Increasingly, these are services—feeding the hungry, teaching our children, even keeping our neighborhoods safe—that the nonprofit sector must provide.

For me, these stories are too familiar—and too foreign.

Too familiar are the challenges children face in settings where our communities have eroded. I felt first-hand the power of strong communities and caring adults, in the not-so-rich neighborhood of Cleveland where I was raised. I can understand how the erosion of neighborhoods and the weakening of families has so changed the outlook for children. But even with this awareness I am still unable to fathom something far more foreign to me: the despair—the vacant stare of hopelessness—that darkens so many young lives today.

Where I was raised, we were short of material things, but we were never without hope. My family 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 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 and waste them.

It is the difference between four-year-old boys whose eyes sparkle with wonder and curiosity ... or who sneak outside in the dark of night and pull a fire alarm in search of food.

It is the difference between hundreds, perhaps thousands, of young people having access to the resources—a tutor, a mentor, a marketable skill—that allow them to break the cycle of despair, or countless lives being thrown from difficult homes to even meaner streets.

It is, in the end, the difference between the fear and despair that infect and destroy too many young lives—and the hope and opportunity that, even on the most trying days in a tough neighborhood in Cleveland, were always in my heart.

At the Morino Institute, this difference—building the capacity of nonprofits to serve children—is our challenge. What is yours?

Your challenge is to return to your companies—your communities—with a renewed commitment to giving philanthropies a partner, not a pittance. Your challenge is to imagine how the skills with which you grow your companies could grow a nonprofit's capacity to provide social services.

And that note—a challenge for the people in this room—seems like a good place to close. For surely if this responsibility belongs to anyone, it belongs to us—we who have prospered in, and learned from, the New Economy's phenomenal creation of wealth. We can harness the practices—and leverage the prosperity—of the extraordinary revolution in which it is our privilege to participate. To the promise of the New Economy, we can add the purpose of a New Philanthropy. And those are dividends no other investment can pay. Thank you.

