MORINO INSTITUTE

Venture Philanthropy: Leveraging Compassion with Capacity in the National Capital Region

Remarks by Mario Morino, Chairman, Morino Institute
Washington Regional Association of Grantmakers Annual Meeting
June 21, 2000

Thank you. It is a pleasure to be here today, to have this opportunity to speak with you, and to celebrate the accomplishments of National Capital region's grantmakers.

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.

I hope to convey three 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. Finally—and just as importantly—I want to share my belief that we should demonstrate the power of this change here, in the National Capital region.

No matter how much philanthropy changes, one constant will remain: the dedication of extraordinary people in nonprofit organizations and foundations who put their careers and reputations on the line to solve problems that sometimes seem unpopular and often seem intractable. Many of you are here this afternoon. You've done so with conviction and courage, and often without nearly sufficient resources or reward. The changes I propose build on this dedication. The future of philanthropy lies neither in a clean break from the past nor a stubborn reluctance to change. So of all the thoughts I want to share with you today, one of the most important is this: in philanthropy, as in most changes in society, the new and the established that have earned their place in philanthropy must work constructively—and respectfully—together.

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.

Success stories in philanthropy are not well disseminated and seldom are they more broadly adopted. Marketing remains a bad word in philanthropy, and knowledge capture and dissemination are still too foreign a concept. This causes needless duplication of effort, longer and more expensive development, and less efficient service delivery. And, as the wheel is reinvented time and again, funding is diluted.

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.

Here is where the exciting times in which we live become so relevant. 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.

This 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.

Consider the remarkable story of Gary Mulhair and the 15 years he has spent 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, Pioneer's equity is $11 million. In 1998, it was a $50-million-a-year firm—providing a sustained, predictable source of funds that enabled Gary to build and grow an effective human services organization.

Pioneer succeeded because its partners, companies like Boeing and Starbucks, followed a "venture philanthropy" approach. Pioneer was able to break its dependency on grants. It could focus on results. Rather than a mission that bounced between grant applications, Pioneer focused on a defined outcome and invested in the technology, management and capacity needed to reach it. And it worked.

Imagine the gains we could make in delivering social services by helping other leaders, budding Gary Mulhairs, build strong organizations and explore new ideas for developing and supporting them.

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 for the National Capital

Region and Community Wealth Ventures, is leading a group of business leaders to launch an exciting experiment in venture philanthropy. It will be dedicated to demonstrating that the application of strategic investment management can build strong, more effective and more sustainable organizations serving children in the National Capital region.

The strategic investment model does not fit the needs of all nonprofits. Nor does it replace existing philanthropy. Venture philanthropy applies best where it is most needed and can most succeed: in institutions that provide a social service and that could deliver that service much more effectively and with far greater value with a strategic investment that helps build a stronger organization. It applies most to untapped potential that can be harnessed and highly leveraged. And it is worth noting that venture philanthropy would work only for organizations that are highly receptive to this more engaged approach.

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 after-school program. For these children, we seek not just better managed organizations, but better managed lives.

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 you already do. We very much need to work together.

If anything, our own experience with the Morino Institute has given us a healthy realization of the magnitude of what we propose to do. The challenges children face today are enormous. And those trying to serve them face difficult systemic barriers.

We know we can't just be a bunch of rich do-gooders from the suburbs. To the contrary, our decisions must be thoughtful, our deeds deliberate and our actions sensitive. We have much to learn. We need to continue to earn the respect of those already working with children in philanthropy and the nonprofit world. And most important, we must recognize that this effort and those involved with it understand the needs and values of the communities in which we hope to invest. As such, we are being methodical in our planning. We are engaging people who know more than we do. We are being inclusive in our outreach. And most of all, we are trying to avoid unrealistic expectations.

We are determined for this approach to philanthropy to succeed. But, in equal measure, we are determined for it to succeed here—in the National Capital region.

We are determined for it to succeed here because it must succeed here—because, in spite of the tremendous efforts of foundations and nonprofits here in the region, our children need more help.

We should do it here because here we have an unprecedented opportunity. This region is emerging as one of the major centers of New Economy innovation. Over the next 10-20 years, the region will be home to an unimaginable creation of wealth. New givers will emerge as a result. And we have the opportunity to influence them—to make their giving more strategic, to direct them toward outcomes, to engage them in their region's future and to focus more of their efforts on the children who need our support the most.

We can do it here, in the National Capital region, because the leading players in the New Economy here may be unique because of several intangible factors. They are approaching their lives and their philanthropy with a level of maturity and thoughtfulness that would surprise many people. Their stories are of lifelong service, not just shotgun wealth. They are players like Raul Fernandez and Kathy Bushkin, who worked in public service before they were private entrepreneurs, or Nina Zolt, Josh Freeman and Mark Warner, who have already introduced innovative approaches to social challenges, or Jim Kimsey, whose tours in Vietnam taught him the true measure of a life's worth. And among these players, there is a collegiality brewing—even growing friendships that will bind them together in causes larger than corporate success.

We can do it here because a vibrant entrepreneurial ecosystem has been nurtured in this region over the last several years. That ecosystem provides receptive channels through which to engage entrepreneurs and businesspeople alike in this mission more effectively.

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 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. 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.

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.

By way of closing, let me restate what I said when I began*: The real solution for helping nonprofits deliver social services more effectively is neither a clean break from the past nor a stubborn resistance to change*. The road to progress is partnership—a partnership under which the established and the new work side by side. We can partner to better learn how to be good at helping organizations build their capacity and be more effective and sustainable. We can partner so that our investments to build stronger organizations greatly leverage the program funding of the larger, more established philanthropic funders. And, together we can trigger a reaction in this region—one that will ripple out to provoke new thinking in philanthropy across the nation—that could have a lasting impact on the lives of children for years to come.

This is our common purpose.

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?

Let's demonstrate venture philanthropy with compelling success—a success compelling enough to be a catalyst for a broader, more meaningful philanthropic involvement.

Let's work together to embrace new ideas—to rethink philanthropy.

Let's embrace a new philanthropy to show that we can take on the intractable problems and enrich the lives of children.

And let's do it in a place to which the world is once again looking for new ideas and new hope—the National Capital region. Thank you.