

MORINO INSTITUTE

Completing the Wealth Cycle in the New Economy

**Remarks by Mario Morino, Chairman, Morino Institute
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Completing the Wealth Cycle in the New Economy

Thank you and good morning. I am delighted to be here today and honored to be a participant in this Summit.

Many of us should pinch ourselves to be sure that we're not living in a wonderful fairy tale. I don't have to tell you that this region is hot. We are experiencing remarkable economic successes that are beyond our wildest dreams. We have extraordinary companies, that are driving change and innovation—AOL Time Warner, MicroStrategy, just to name a few. And new companies are being born every day fueled by exciting ideas, inspired people and innovative solutions demonstrated with the likes of WebMethods' stock climbing 508 percent the day it went public and Network Solutions being purchased for \$21B. And, the beat goes on.

But there is something else on the horizon, something even more profound. These same leaders who are driving change and innovation in business are beginning to bring the same expectations to their philanthropy. They are beginning to think about where and how to channel their wealth to make a difference.

We have the remarkable opportunity to take this wealth, knowledge and energy and channel it in meaningful ways to address some of our most vexing and longstanding social problems. We have an opportunity to build and align the efforts of these leaders with the efforts that have been going on in the region for some time. We, the National Capital region, can be the first in the New Economy to demonstrate how to close the wealth loop—from innovation, to financial success, to life significance.

WHY I AM SO OPTIMISTIC?

We are already accumulating the wealth and resources that could really make a difference, but we have only seen just the tip of an iceberg. We've established an economic engine here that will sustain significant wealth creation and survive the inevitable market correction. The region's New Economy is real and will soon become THE economy.

We have created an entrepreneurial ecosystem with rich networks, formal and informal, connecting people to other people to find talent, money and other resources to create and build companies. And there is an emerging spirit of collegiality among the firms here that sets us apart from other regions.

Although we still have deep divides—a river, the color of our skin or the amount of money in our bank accounts—we are a region that is beginning to come together. More people recognize the importance of the District of Columbia and that there must be a strong central core to this burgeoning region. Institutions like the Smithsonian are coming to recognize that, in spite of their national status, they are part of this regional community. New organizations are helping us cross boundaries. Whether it's WIN and its community organizing, or the Metropolitan Dialogue to explore how faith can be the basis of change for us, or the Mid-Atlantic Venture Association through which venture money is flowing into the region, there is a social fabric being woven.

We have a strong legacy of leadership and of civic engagement. Bob Linowes, Abe Pollin, the Grahams and others have contributed much to this region and its health. And we have new leaders like Steve Case and Michael Saylor, who are with us today, and who join an even broader group of those like Mark Warner, Jim Kimsey, Raul Fernandez, Jeong Kim and many others. These leaders come to philanthropy relatively young. They seek and expect to change the status

Completing the Wealth Cycle in the New Economy

quo and are willing to take risks to make it happen. They've already done it in their business lives and know that such dramatic change is possible. And they'll settle for nothing less in their philanthropic actions.

WHY CHANGE?

In the eight years that I have been working through the Morino Institute to help people and communities understand the opportunities and risks presented by the Internet and the New Economy, I have had the privilege to meet some remarkable people and organizations doing great work. What I've learned is that there are good programs and organizations out there who have found solutions that work. Rarely, however, are those solutions broadly disseminated or implemented on a broader scale. What's needed are not necessarily new solutions but new ways to fund and support the good organizations and ideas in the nonprofit sector.

All too often, the discussion of philanthropy focuses too greatly on how to raise more money for charitable causes. While this is vitally important, not enough attention is paid to how to use and distribute that money to achieve better results. There is a whole "new philanthropy" that has emerged that includes e-philanthropy, philanthropic financial services and venture philanthropy. Taking aim on this latter point, I'd like to talk with you today about venture philanthropy.

WHAT IS VENTURE PHILANTHROPY?

Well, it borrows some of the practices of the venture capital model. The best venture capitalists do more than provide funding. They also provide the know-how to build great companies. Their focus is not only on creating better products, but on investing in the people, organizations and systems that can build and create those products. Imagine if we applied these principles to the way we fund nonprofits.

The way we support nonprofit organizations doesn't encourage investment in building strong organizations. Money flows to programs, not to organizations. We want a program to provide shelter to more people, but we are reluctant to invest in developing the organization to do this well. We reward those with the low overheads, making it almost impossible for them to re-invest in their own development.

Ironically, at the Morino Institute we've been living venture philanthropy without realizing it. We were just doing things in a way that made sense to us. We listened and learned about the nonprofits with whom we worked. We wrote checks, but our involvement went further. Without trying to change their mission, we tried to help them be more effective in what they did.

Now, imagine a venture philanthropy fund that follows this model to identify people and organizations that have the potential to be market leaders in what they do. Imagine this fund investing substantial amounts of money, not \$15,000, but several million dollars. Imagine that the fund provides strategic management and technical assistance to help an organization develop its management, create strategic partnerships and develop alternative revenue streams to enable the organization to sustain itself. And imagine the fund working with organizations to develop clear performance goals that enable them to continuously improve their effectiveness, while providing their investors and other stakeholders an accountability of their progress.

Completing the Wealth Cycle in the New Economy

WHAT IS ITS PROMISE?

Let me give you an example, where this has happened. City Year, a national youth service corps that was the inspiration for President Clinton's Corporation for National Service, benefited greatly from this type of approach.

Ten years ago, founders Michael Brown and Alan Khazei needed to raise money to launch their program that would build a national youth service corps that would function like a domestic Peace Corps.

General Atlantic Partners, one of the leading investors in information technology and Internet firms today, heard about this program, met the founders and within 15 minutes decided to give them a \$100,000 challenge grant. They did this because they saw the potential. They saw a strong management team in the founders and a terrific idea. That \$100,000 grant enabled City Year to raise \$100,000 each from four additional companies within 40 days. So in little over a month, they went from nothing to half a million dollars. But General Atlantic's involvement didn't stop there. They took a seat on the organization's board, helped them with management issues and continued to provide advice and financial support that increased every year.

Today City Year is in 11 cities and engages more than 1,000 young people between the ages of 17 and 24 each year in meaningful service that benefits them and their communities.

Imagine what this kind of approach could do to help other organizations such as the YMCA, Goodwill, Boys & Girls Clubs and our public schools that make a difference in so many people's lives. Imagine how much more of a difference they could make to more people if, with greater funding and strategic management support, there were ways to significantly leverage their infrastructure and services. Venture philanthropy offers this promise.

The Morino Institute is well on its way to launching a social venture fund here in the region to demonstrate venture philanthropy. And we have lots of support. Raul Fernandez, Mark Warner and others are committed to the concept and the way it would help change philanthropy and build nonprofit organizations.

In 1994, I somewhat naively presented to the Northern Virginia Roundtable a vision for how the National Capital region would experience a transformation to become a leading center in the new commerce of the Internet. Now, for many reasons, that has come to pass. Today, maybe just as naively, but with even more passion and conviction, I suggest that we are on the verge of yet another transformation that will profoundly change philanthropy and the nonprofit sector. This time the change will come more slowly and will be much more difficult, even traumatic for some. But it will happen.

The opportunity, the resources, the leadership and the need are here. We are beginning to see a convergence. I challenge each and everyone one of you to get involved, to get engaged. You can make a difference. Just imagine "We can be the first region that gets it right in completing the wealth cycle in the New Economy."