What is venture philanthropy?

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Venture philanthropy refers to an actively engaged process through which funders support organizations in maximizing their social impact over a long-term horizon. It applies the principles of business and, in particular, venture capital, to philanthropy in order to increase the efficiency and impact of those philanthropic efforts.

Early history

Although it has been hailed as a more recent concept, Andrew Carnegie and the first John D. Rockefeller were practicing aspects of venture philanthropy over a century ago. And the term "venture philanthropy" was actually coined by John D. Rockefeller III in the 1960s, when he described it as "an adventurous approach to funding unpopular social causes."

Carnegie and Rockefeller made their vast wealth as entrepreneurs during the Industrial Revolution that spread across America in the 19th century. They both established the first major foundations in the early 1900s and, through the application of both their entrepreneurial skill and belief in science, became the first venture philanthropists. They took on illiteracy and poverty among other social issues and also supported medical research, finding extraordinary success in these endeavors. Theirs was, as Rockefeller described it, the "business of benevolence." They applied the same passion and intensity to their philanthropy that brought them such success in business. Carnegie even wrote down his views on philanthropy and wealth in his book, *The Gospel of Wealth*, which has become the key text for modern venture philanthropists like Bill Gates and Eli Broad, among others.

More recent history and refinement

Throughout the 20th century, most philanthropy was not as engaged or strategic as that of Carnegie and Rockefeller. For the most part, philanthropy involved choosing a nonprofit and determining how much to give to it. Individuals wrote checks and foundations made grants. Once the check was cut, there was little ongoing involvement by the donor. Individuals and foundations were satisfied relying on the expertise of the recipient charity in utilizing the gift. Without ongoing involvement and proper tools for measurement, it was difficult to determine the impact of any particular gift.

The decade between 1999 and 2009 brought dozens of articles and books fleshing out the concepts of venture philanthropy, culminating in a seminal article by Mark R. Kramer, "Catalytic Philanthropy,"[1] published in the Fall 2009 issue of the *Stanford Social Innovation Review*. Catalytic philanthropy combines the effectiveness concepts of venture philanthropy with Carnegie and Rockefeller's emphasis on solving the world's great social problems.

Kramer states that catalytic philanthropists are effective because they engage in four distinct practices:

1. They have the ambition to change the world and the courage to accept responsibility for achieving the results they seek;
2. They engage others in a compelling campaign, empowering stakeholders and creating the conditions for collaboration and innovation;
3. They use all of the tools that are available to create change, including unconventional ones from outside the nonprofit sector; and
4. They create actionable knowledge to improve their own effectiveness and to influence the behavior of others.

[1] Mark R. Kramer, "Catalytic Philanthropy," *Stanford Social Innovation Review,* Fall 2009.

The theory

There is no definitive definition of the term "venture philanthropy." In fact, many experts think that venture philanthropy is a separate and distinct subset of "strategic philanthropy," like social entrepreneurship and catalytic philanthropy. This, however, seems to be more of an issue of semantics than substance. All of these concepts share an emphasis on impact, strategy and the application of performance measurement and application of management tools to philanthropy.

Traditional philanthropy often emphasizes narrowly focused and short-term grants, while venture philanthropists have developed a comprehensive approach that involves close monitoring, clear performance objectives and building a sustainable organization. In an article published in 1999 called "Philanthropy's New Agenda: Creating Value,"[2] written by Michael E. Porter and Mark R. Kramer (both national experts on business strategy), the authors offer four ways foundations could create social benefits beyond the immediate effects of grants by adopting the venture capital model. Like business investors, they could:

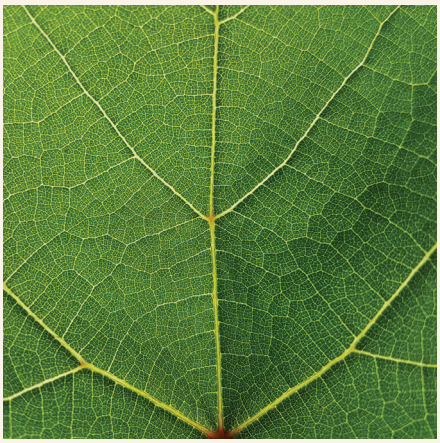
1. Use their expertise to select the best recipients of their funds and then measure the effectiveness of these selections;

2. Attract additional funding to these grantees by offering matching grants;

3. Actively partner with recipients to measure their performance; and

4. Conduct systematic studies of the long-term success of different types of projects and research new ways of addressing social problems.

[2] Michael E. Porter and Mark R. Kramer, "Philanthropy's New Agenda: Creating Value," *Harvard Business Review,* November – December 1999.



Core principles of venture philanthropy today

While there isn't just one approach to implementing a venture philanthropy strategy, there are several key criteria that are often present concurrently. The overarching theme is one of a purpose-driven and solutions-oriented philosophy. Below is a list of characteristics of venture philanthropy:

- Seeks to address a pressing societal or environmental issue
- Emphasis is on interventions that can be scaled, with the goal of systems change (supporting collective efforts to drive impact, as opposed to supporting one organization or project at a time)
- Structures funding mechanisms that can include targeted grants and/or investments
- Provides extensive non-financial support, including capacity building and advisory services
- Encourages innovation and risk-taking in finding solutions to the societal challenges being addressed
- Funders/investors are actively involved and committed to a years-long engagement, as they seek lasting impact in effecting systems change
- The focus is on the beneficiaries, or those populations that are directly benefitting from the offerings of the service provider. This can include those living in extreme poverty, refugees, children, women, those negatively impacted by climate change, or any other vulnerable population impacted by the societal or environmental issue being addressed.
- Monitoring and evaluation are key components of measuring outcomes and impact

At its core, venture philanthropy is a collaborative, cross-sectoral endeavor, often involving public-private partnerships. And the social purpose organizations implementing/driving change can be nonprofit entities, non-governmental organizations (NGOs), social enterprises or they may involve for-profits in some instances. The common factor here is that they have a proposed solution to a pressing societal or environmental issue.

The focus on outcomes while driving toward that solution is always the guiding "North Star," which encourages an iterative process to continually refine and improve program delivery. This methodology also emphasizes moving away from funding interventions that don't have measurable impact.

What is the future of venture philanthropy?

Historically, venture philanthropy was the domain of wealthy individuals, large private foundations and community foundations. While the dominant players are still the large institutions with the staffing and expertise necessary to engage in venture philanthropy on a large scale, venture philanthropy has become much more accessible to a wider range of individuals and small family foundations in the past decade. This is in large part due to improved information networks, online marketplaces and charity rating websites, along with community foundations and commercial donor-advised funds creating relevant offerings.

It's not a coincidence that venture philanthropy is on the rise along with Millennials' increasing share of charitable giving. The "*Millennial Impact Report*" reported that in 2017, 69% of Millennials donated to causes and social issues of interest.[3] Millennials will have control over an unprecedented amount of money going forward; they are looking to engage deeply with organizations and they want to maximize their philanthropic impact in as many ways as possible. They embrace many of the core principles of venture philanthropy listed earlier.

Venture philanthropy is growing rapidly—having evolved from a few articles written about it in the 1990s to a major movement. Furthermore, it should continue to have a transformative effect on philanthropy in the coming years as more donors and charities adopt its practices and seek greater impact and systems change in addressing some of the large social issues of our time.

Additional reading:
A Practical Guide to Venture Philanthropy, UBS Advanced Planning Group.

[3] The Case Foundation and Achieve, *Inspiring the Next Generation Workforce: The 2017 Millennial Impact Report* (2017).

To learn more
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