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## Case Study

### **Taking Stock of Venture Philanthropy**

In the early, heady days of the venture philanthropy movement, its proponents touted it as revolutionary, while critics said it was just old wine in new bottles. The experiences of the Center for Venture Philanthropy show that the truth lies somewhere in between: Venture philanthropy is no miracle cure, yet it can be particularly good at building strong organizations, knitting together new networks, and shrinking the power gap between funders and grantees.

By Steven LaFrance and Nancy Latham

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# Taking Stock of Venture Philanthropy

*In the early, heady days of the venture philanthropy movement, its proponents touted it as revolutionary, while critics said it was just old wine in new bottles. The experiences of the Center for Venture Philanthropy show that the truth lies somewhere in between: Venture philanthropy is no miracle cure, yet it can be particularly good at building strong organizations, knitting together new networks, and shrinking the power gap between funders and grantees.*

by STEVEN LAFRANCE & NANCY LATHAM

In 2000, the San Mateo County library system piloted a program called Raising A Reader in 12 Northern California child care centers. The program taught low-income parents a daily routine of cuddling and reading to their young children. With its low-cost method for preparing children for kindergarten, Raising A Reader expanded to 175 communities across 33 states by 2008. Sixteen independent evaluations showed that the program fostered parent-child bonding and children's cognitive development, and *Fast Company* awarded the organization its Social Capitalist Award three times.

Behind Raising A Reader's success and rapid expansion was the Center for Venture Philanthropy, a division of the Peninsula Community Foundation (now the Silicon Valley Community Foundation). One of the pioneers of venture philanthropy, the Center for Venture Philanthropy applied venture capital's tools for incubating new businesses to social change organizations. The center has launched five social venture funds since its inception. For each fund, the community foundation taps into its vast

What can  
venture philanthropy do  
better than traditional  
philanthropy?

Which techniques did  
the Center for Venture  
Philanthropy borrow from  
venture capitalism, and  
which did it eschew?

What are the costs of  
venture philanthropy?

network of local investors to raise money. Investors, in turn, work directly with the center staff and nonprofit clients to understand and address community and nonprofit issues.

To fund and expand Raising A Reader, the center first worked with the organization's leaders to define program goals, to delineate strategies for reaching these goals, and to specify metrics for monitoring progress. The center then launched a social venture fund to scale Raising A Reader over the course of six years, with the objective of building a national program that would reach 100,000 children annually in its start-up phase. The center not only used its networks to raise some \$2.5 million, but also organized meetings at which donors, practitioners, and experts developed Raising A Reader's business model. In addition, the center established the program as a 501(c)(3).

The center launched its second venture fund, the Environmental Solutions Forum (ESF), in 2003. With this four-year fund, the center further showed how venture philanthropy could overcome some of the challenges that traditional philanthropy often faces, including expanding successful programs, coordinating organizations with similar missions, and measuring progress.



As part of a Youth Science Institute (YSI) program, first-grade students explore aquatic plants and animals in a Northern California creek. YSI was a grantee of the Environmental Solutions Forum, which built a regional network of environmental educators.

Our consulting firm evaluated ESF over four years, conducting more than 60 interviews, observing dozens of programs, assessing organizational capacity at baseline and follow-up, collecting data on more than 50 programs, and comparing these programs with best practice standards for environmental education. Our evaluation reveals that ESF built many strong, effective, and efficient environmental organizations, rather than just creating lone pockets of excellence. The fund also cultivated a vibrant, fast-acting network and leveled the hierarchy between funders and grantees. Together, these organizations are improving stewardship of the environment throughout the San Francisco Bay Area. We conclude that venture philanthropy has the potential to strengthen entire fields, leading to long-term and sustainable social change.

### First Principles

Carol Welsh Gray started the Center for Venture Philanthropy in 1999. She began her venture philanthropy work at Joint Venture: Silicon Valley Network, a

nonprofit established in 1993 to support businesses in Silicon Valley. With her board of business presidents and school superintendents, she launched a regional school reform effort founded on five venture capitalist practices: (1) Invest in a business plan that the grantee organizations' leaders strongly support; (2) enlist a managing partner with a sharp focus on results; (3) establish metrics, milestones, and a quarterly accountability process; (4) solicit the perspectives of multiple experts; and (5) define success and exit strategies at the onset.

Gray and the board first matched schools with national education experts. These teams then developed plans for improving students' academic performance. Joint Venture then gave the top plans \$1.2 million in cash, technology, and expertise. For example, Joint Venture connected teachers from the low-income La Honda-Pescadero Unified School District in Northern California with experts in the field of improving students' writing. The team developed a new K-12 writing curriculum that included monthly assessments of student

progress. It also convinced the teachers' union to monitor how well teachers' classes met the program's writing goals. Ten years later, this district has seen dramatic improvement in student writing performance as measured by standardized assessments.

When Gray got the chance to start the center, she knew her mission: "I wanted to show that this method could work across all types of issue areas."

### Strong Organizations

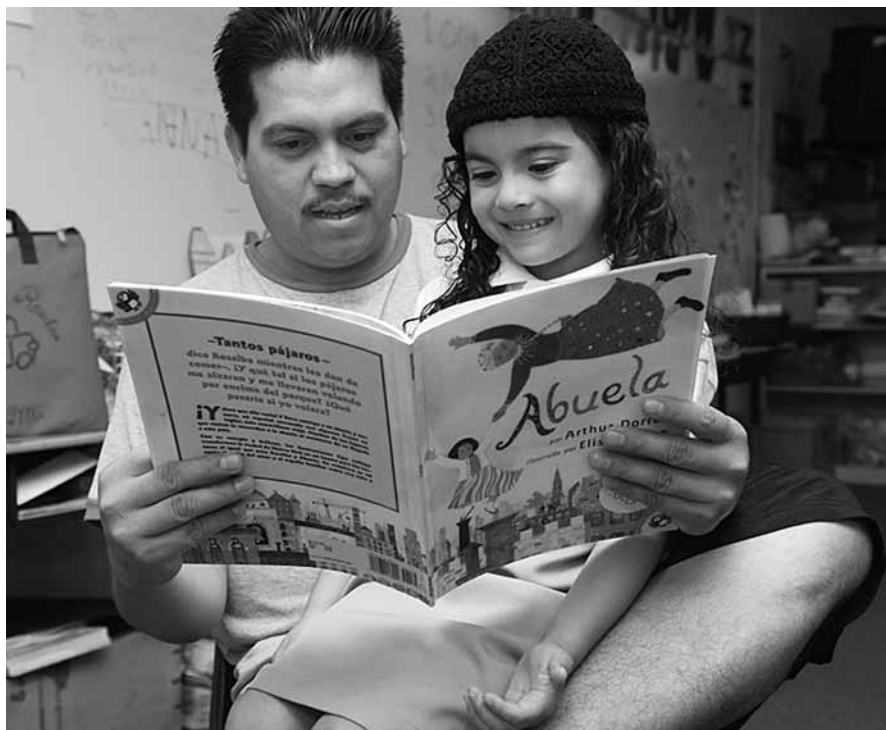
Under Gray's leadership, the center launched ESF on Earth Day 2003. The fund's goal was to improve environmental education throughout the San Francisco Bay Area. With the fund, ESF gave 13 environmental education nonprofit organizations and two county offices of education a total of \$1.6 million over three years. ESF also included a year of collaborative planning between the center and grantee partners. The fund was designed to help organizations assess their operations and make improvements that would build their capacity, which we define as the aspira-

## CASE STUDY

tions, strategies, and skills that an organization uses to pursue its desired impact. Organizations often express their aspirations in their mission, vision, and values statements, as well as in their specific goals and objectives. Their strategies encompass all of the programs and approaches—the “means”—organizations use to pursue these aspirations. Their skills include leadership, governance, resource development, financial management, and technology, as well as organizations’ structures and cultures.

At the outset of the initiative, center staff helped the 15 organizations evaluate how to fortify their fundraising, communications, and physical infrastructures. Although the center brought in national experts to work with executive directors and their teams, the organizations assessed their own resources and discussed what kinds of improvements they wanted to make. Monthly retreats allowed executives to learn from each other as they developed and implemented their plans. The center then helped the nonprofits develop logic models, which plotted the cause-and-effect path from organizational capacity building to community impact. Center staff also met quarterly with each executive director to make sure that the organizations were progressing along their chosen pathways, as well as to celebrate progress and make course corrections.

Executive directors rated the goal-setting and quarterly check-in processes very highly. “It’s so easy to go through life dealing with the squeaky wheels,”



The Center for Venture Philanthropy first funded *Raising A Reader*, which uses multicultural stories to foster read-aloud routines in low-income families with children.

says Michael Closson, executive director of Acterra, a Palo Alto-based environmental leadership program. “The quarterly plans integrate the ESF goals.”

Yet in setting these goals, the center was careful not to impose its own agenda. Instead it honored each organization’s priorities. When Judith Steiner, executive director of Los Altos-based Hidden Villa, wanted her organization to focus on conducting better evaluations, she used her ESF funds to hire evaluation specialist Sigrid Mueller. At first, Steiner thought of evaluation only as a way to identify which programs to cut. Mueller chipped away at this notion, and in its place instilled a “culture of inquiry” that encourages Hidden Villa

staff to use evaluation constantly to assess and improve its programs. This continuous evaluation revealed that schoolteachers weren’t just chaperones on student field trips to Hidden Villa’s nature preserve. Instead, teachers consolidated students’ learning when they incorporated the Hidden Villa experience into their classroom teaching. And so Hidden Villa’s staff redesigned their programs to better accommodate teachers’ central role.

The center’s approach was not without critics, however. When Gray extended the venture philanthropy model to building capacity, she encountered skepticism. Both venture capital and venture philanthropy usually focus on incubating start-ups and scaling successful models. One early potential investor (who eventually backed the idea) challenged: “You’re not trying to grow them, so where are you going to get the metrics? You still have to show us investors you’ve gotten meaningful bang for the buck.”

Indeed, metrics for the field of environmental education were wanting. So

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Gray partnered with other funders to launch the Bay Area Environmental Education Evaluation (BAEEE) collaborative. She connected a group of ESF executive directors with the collaborative, and the two groups produced a logic model for the entire field of environmental education. They agreed upon short-term, intermediate, and long-term outcomes and corresponding indicators.

Once the organizations established consistent, evidence-based standards and goals, their performance improved. For instance, all of the organizations that educate individuals (as opposed to businesses or other organizations) incorporated the practice of multiple exposures—that is, relating a piece of information to clients through many experiences in different settings. Environmental Volunteers’ Digging Deeper program has mastered the multiple exposures approach. Its classroom curriculum prepares students for outdoor field trips, and then reinforces what they learned following the field trips. Moreover, its pure science curriculum complements its environmental stewardship curriculum. And finally, the curricula of successive grades (first through fifth) build on one another. By the end of the three-year initiative, ESF organizations were reaching more than 500,000 Bay Area residents annually with programs using multiple exposures.

Since adopting the multiple exposure approach, “student educational achievement, as measured on pre/post tests, and by comparing standardized science test scores over multiple years, is through the roof,” says Allan Berkowitz, executive director of Environmental Volunteers, a Palo Alto-based organization that enlists volunteers to bring hands-on natural science education into classrooms.

Before the initiative, “there wasn’t a lot of cohesion among EDs in environmental education,” says Susanne Mulcahy, executive director of Youth Sci-

ence Institute in Los Gatos. “When you get everyone in the sector on the same page on best practices, it elevates individual organizations, and also the sector. It causes us all to raise the bar.”

### New Networks

Social scientists have long identified networks as critical factors in nonprofits’ success (see, for example, “The Networked Nonprofit” [spring 2008] and “Networks for Good Works” [winter 2007] in the *Stanford Social Innovation Review*). Although funders often have rich ties to other organizations and experts, they rarely loop their grantees into these networks. In contrast, the center’s model of venture philanthropy explicitly connects grantees to other network members. Gray and her staff communicate with grantees often—at quarterly check-ins, in grantee meetings, and when grantees contact them to discuss challenges or opportunities they face. Executive directors can contact center staff at any time, and often do so. Gray and her staff first ask themselves, “Can we put this grantee in touch with someone else in our network who can provide needed resources or expertise?” And even when grantees don’t explicitly ask for help, Gray is still busily connecting the dots between what one organization needs and what another organization or person knows or has.

For example, when the Lucy Evans Baylands Nature Interpretive Center (BIC) was about to fall victim to Palo Alto’s budget ax, the city called Berkowitz to ask whether Environmental Volunteers could help save it. Berkowitz’s agency did not have the money on hand, but he knew where to go. He called Gray, who tapped into her network of investors and nonprofits within a few hours. In response, investors funded two Environmental Volunteers interns who received low-cost room and board at Hidden Villa’s nature farm program. These interns then staffed BIC. In the

end, BIC actually expanded its hours and services, and today young people can spend weekends there, becoming “nature detectives” for a day and studying the animals and plants of a unique San Francisco Bay Area ecosystem.

The center connects organizations with both timely financial resources and timely expertise. Steve Karlin, executive director of Half Moon Bay-based WildLIFE Associates, is a born entrepreneur. He came to ESF with many dreams, but without the resources he needed to turn them into realities. After using ESF funds to build new facilities for his programs, he turned his attention to building demand. When Karlin needed marketing expertise, Gray put him in touch with the Taproot Foundation, which helped him develop new marketing materials for adult workshops in animal tracking and animal painting. These workshops in turn generated income to fund the organization’s central work with schools.

The center not only connects grantees to members of its own network, but also increases the flow of information between grantees. In other words, the center helps turn the group of grantees into its own network. Gray and Peter Kim, ESF’s program officer, have a bird’s-eye view of the expertise and knowledge at the fingertips of ESF organizations. They use this understanding of the whole to help grantees help one another.

For instance, the Santa Clara Valley Audubon Society needed software to track its foundation and corporate contacts. The center staff told Brenda Torres-Barreto, the society’s executive director, that she need look no further than her colleague David Lewis, Save the Bay’s executive director. Lewis was able to tell Torres-Barreto about the pros and cons of the tracking software his organization had been using. This targeted consultation at the exact moment of need not only saved Audubon time



At the Lucy Evans Baylands Nature Interpretive Center, a naturalist helps children identify birds above the San Francisco Bay. Fellow Center for Venture Philanthropy grantees helped the center through a budget crisis.

and money, but also boosted the society's confidence in choosing a more expensive yet more effective system.

### Flat Hierarchies

A potential pitfall of venture philanthropy is the degree of power funders have over grantees. This power gap can make the funder-grantee relationship "difficult, stressful, or contentious," write Christine Letts and William Ryan in the spring 2003 issue of the *Stanford Social Innovation Review*. The culture clash between venture philanthropy and the nonprofit sector is another source of tension. "Too many people . . . go storming into the boardroom and say, 'We'll run this place like a business,'" Michael Moody quotes a venture philanthropist saying in his account of venture philanthropy.<sup>1</sup> No wonder a grantee interviewed for the Letts and Ryan article described the experience as one of "being in front of a locomotive."

But the ESF grantees describe their experience with the center in an entirely different way: as an authentic partnership. According to Mulcahy, "The mes-

sage coming from [the staff] is: 'We know it's hard and we know it's not perfect. We don't want smoke and mirrors. We really want to look under the hood. We won't punish you when we look in there.'" Berkowitz echoes that the relationship with the center "absolutely has been different from a more traditional relationship. The center staff throughout have been incredibly supportive. They succeeded in creating an environment where we could talk about challenges as well as successes."

This is a far cry from the feeling of standing in front of an onrushing train. Why? How does the center manage the power dynamic differently to build trust and create authentic partnerships? The answer lies in cultural competence. Gray is steeped in nonprofit culture, having spent her entire professional career in the nonprofit world, from serving on boards, to leading fundraising efforts, to designing day shelters for homeless youth. "I've seen how hard it is. It's never simple, and it takes multiple minds pulling hard to break through to the new space," she says.

The center also works hard to win grantees' trust. At the end of ESF's first year, grantees still had a wait-and-see attitude about whether their relationship with the center really was going to be different. But from the center's collaborative goal-setting processes at the start of the initiative, through the quarterly check-ins, to the real-time availability of center staff for problem solving and network leveraging, the center gained their trust. "We acknowledge that the grantees have the exper-

tise," says Kim. "Having that approach opens people up. The trust takes time to develop, but having that initial open approach sets the stage."

Veterans of other venture philanthropy firms tolerate their funders' scrutiny and direction because "it's backed by support, and it's often productive," write Letts and Ryan. But the ESF experience shows another way to navigate the power dynamic: The center shows grantees a deep sense of respect born out of a shared professional background. Grantees are the acknowledged experts, and funders are there as critical friends, helping in whatever way they can to keep the agencies on track.

### Worth the Costs

Because of funders' intense involvement, venture philanthropy costs more than traditional grantmaking. All good philanthropy involves due diligence in evaluating opportunities and measuring impact. Yet traditional grantmakers usually step back after they make their grants, giving grantees space to succeed

or fail. Venture philanthropists, in contrast, publicly commit to do whatever it takes to make their grantees succeed. They also publicly report their progress. For example, the center shares quarterly reports with its donors and non-profit partners. This transparent accounting builds trust between people on both sides of the grant. At the same time, the high visibility of progress—or lack thereof—raises the stakes for venture philanthropists to meet their publicly stated objectives.

Yet the ESF case illustrates what the additional costs of venture philanthropy can buy. Grantees built physical, communications, fundraising, evaluation, and board capacity. They coalesced around common metrics of success and a standard set of environmental education best practices. And they connected with new networks and solidified the network relationships among themselves. As a result, they are reaching thousands of new people every year and are reaching hundreds of thousands of people with better programs.

Of course, venture philanthropy's added costs raise the question of how its results compare to those of less intensive, more traditional philanthropists making similar-sized grants. Although no one to our knowledge has yet isolated the specific effects of venture philanthropy's components, we have compared ESF to a similar yet traditional capacity-building initiative. This comparison initiative aimed to strengthen a region's human services safety net, and involved a similar number of grantees over the same number of years with an investment level similar to ESF's. Yet unlike ESF, the initiative did not use in-house management and did not closely monitor quarterly results—two of the most costly aspects of the venture philanthropy model. Although the initiative did build leadership and strengthen organizational capacity, it did not advance a field of practice as ESF did.



Luna, a great horned owl, displays herself to a school group in a WildLIFE Associates presentation. Luna's left eye became permanently dilated when a car hit her.

In addition, the relationships and practices that the center forged have outlasted the life of the grant. At ESF grantee organizations, center staff remain involved in leadership transitions, board-level discussions, and business model development. And best practices, evidence-based metrics, and transparent accounting continue to guide grantees' actions.

"Our organization has steadily improved at all levels in terms of being focused, really choosing priorities, setting goals, and being accountable for what we actually accomplish," says Lewis. "And when we don't accomplish the results we were intending, we look at why, so we do not repeat the same mistakes. The venture philanthropy approach has helped us do that."

Venture philanthropy is just one approach in a larger tool kit of grant-making strategies. Yet as with any model, the venture philanthropy approach alone

does not guarantee social impact. We attribute ESF's success to the combination of traits that Gray and the center brought to the implementation: discipline, creativity, tenacity, nonprofit cultural competence, humility, a willingness to share risk, a desire to flatten hierarchies, and a relentless focus on results. Having evaluated hundreds of social change efforts, we have never before seen such incisive achievement of a classic big hairy audacious goal (also known as a BHAG): to improve the environmental education of an entire region. Thanks to ESF, the Bay Area now has some 500,000 more effective stewards of its environment than before, as well as a cohort of organizations that can continue to nurture future generations of environmentalists. □

1 Michael Moody, "The Construction and Evolution of Venture Philanthropy: Evidence From Proponents and Practitioners," The Center on Philanthropy and Public Policy research paper 26 (2006).