Risks and rewards of venture philanthropy

Alternate avenues for philanthropically minded individuals or foundations to simultaneously give, invest and impact social good are emerging trends

As the charitable giving landscape becomes increasingly more competitive, many forward-thinking nonprofit organizations (NPOs) are seeking to attract new sources of philanthropic giving that are as innovative as the projects they curate. With limited funding from the government and insurance payments, NPOs are often accustomed to struggling to meet the bottom line to accomplish primary missions and face many obstacles in taking on new ventures. As a result, available funds are typically earmarked for initiatives with measurable and predictable outcomes, leaving riskier groundbreaking and revolutionary concepts on the cutting-room floor.

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Venture philanthropy offers a solution to this predicament. In the past, philanthropists have traditionally maintained a distanced relationship with recipient organizations, expecting that the nonprofit will aggregate funds in the areas where they are most needed and anticipating generalized metrics that substantiate the effort. However, venture philanthropists extend the benefactor/beneficiary relationship by combining charitable giving with implementing for-profit strategies that require the organization to function more like a business. In exchange for their contributions, donors not only get to provide critically needed early support for causes about which they are passionate, but also have the opportunity to see substantial returns on investments—whether through measurable social impact, involvement in future research or, in some cases, even financial returns through the more formal alternative funding vehicle of impact investing.

History of venture philanthropy

Venture philanthropy began in the 1990s as a way to describe savvy donors who recognized great potential in applying business principles and tactics to charitable giving, with an ultimate goal of impacting global or local problems. The term is derived from the risk-taking venture capitalists willing to contribute large amounts of money into revolutionary enterprises that show game-changing potential in their respective fields. The concept encourages nonprofits to create highly effective fundraising systems that function more like businesses, utilizing the diversity of expertise within their network of external business and financial advisers to acquire new partners, explore alternate approaches and define and analyze metrics. In addition to traditional monetary contributions, major donors subscribing to the venture philanthropy ideology offer diverse forms of support, such as offering low-interest loans to jump-start a project, serving on boards and providing management or marketing advice.

Devin Thorpe, journalist, author and speaker on entrepreneurial finance and social good, views venture philanthropy as a vehicle for providing new ways to address old problems.

"It's a new model for philanthropists to fund new projects by serving as an incubator or accelerator to back innovative concepts early with little evidence," he said.

He explains that by expanding networks and merging resources, donor entities can help enhance supply chains, diversify boards and form strategic relationships that might not have otherwise been possible by the nonprofit on its own.

The shift represents a departure from the mindset of simply providing a donation to establishing resources to garner growth and success for innovative initiatives. Although measurements are established, the practice is still philanthropic because the recipients are the primary decision makers in choosing the milestones and benchmarks and leading the research and development.

What projects attract venture philanthropists?

Looking through the lens of the increasingly savvy investor, venture philanthropists give preference to supporting projects that affect greater social impact. These donors will not necessarily be the same investors that have participated in traditional giving opportunities. Much like their venture capitalist counterparts rooted in the technology boom, they often seek to disrupt the normative constructs of charitable giving by supporting underrepresented populations and cutting-edge research and innovation.

From a grand perspective, the practice is more inclined to backing mission-related versus project-related proposals that generate a larger impact on a community as a whole rather than addressing acute needs of a singular entity. Funding construction projects with naming opportunities or securing a new MRI machine would provide an ideal giving environment to reach out to traditional private or corporate donors. By contrast, venture philanthropists would seize an opportunity to back a project promoting cutting-edge pharmaceutical studies, bringing new IT wearables to the market or expediting emerging pediatric research. In return for their donations, they expect nonprofits to be more accountable and more measurable, but they are also willing to be more involved in assisting NPOs in satisfying these criteria.

Pros and cons of venture philanthropy in a health care setting

Pam King Sams is an international relationship development expert who helps organizations and companies build relationships and create successful partnerships in the Middle East. In her experience with forging relationships between high-profile donors and prospective recipients, Sams has identified several pros and cons for health care development practitioners considering an integrative approach to introducing venture philanthropy into a fundraising strategy. On the positive side, Sams notes that hospitals can use venture philanthropy as an extra vehicle to raise resources. They can also diversify resources by taking advantage of corporate

knowledge and relationships afforded by their connection to the donor. Nonprofits such as hospitals may even find rewards from reversing roles, serving as donors by investing in startups with similar missions and enjoying returns on investment resulting from their success.

On the contrary, Sams acknowledges venture philanthropy might not be the right solution for every project. She says successful implementation of the venture philanthropy model "relies on the ability to network with other entities, so if the project's beneficiary is more singular in nature, traditional fundraising may be a better fit."

She also notes that some sectors or organizations may struggle because they are harder to measure, which might leave out smaller, unstructured organizations that are founded by passion.

Recommendations for development practitioners

Health care development experts interested in incorporating venture philanthropy principles into their fundraising strategy should consider the following information when structuring donor proposals:

Promote innovation. Traditional donors gravitate toward traditional projects. Attract venture philanthropists by inviting them to participate on the forefront of cutting-edge projects that have the potential to redefine standard procedures and approaches. Outline any potential return on investment associated with backing the project in its early phases.

Demonstrate impact and scale. Venture philanthropy revolves largely around the concept of investing to create social good. Be prepared to show the project's impact outside of the host organization. Consider partnering with unaffiliated NPOs to extend the organizational reach farther into a community. Connect the community benefits to any related savings to the organization's overall bottom line.

Make it measurable. To be successful, show how you will define success. Articulate specific parameters that you will use to measure milestones, metrics and accountability.

Build a diverse network. Since venture philanthropy mirrors constructs rooted in the business world, including multiple entities from a range of backgrounds is essential. Form a research consortium and board comprised of diverse members. Create an unbiased management group that sits outside of the project to consult with, evaluate and advise the project team.

Implications for hospitals and health care facilities

Based on data presented in the *2017 AHP Report on Giving*, hospitals not only primarily engage in traditional fundraising methods, but they also allocate the largest portion of donated funds to traditional projects. According to survey participants representing typical responding health care organizations in 2016, construction and renovation accounted for the largest use of funds (22.3 percent), followed closely by capital equipment expenditures (19 percent). This correlation makes sense given that buildings and large equipment purchases offer major donors attractive incentives such as naming opportunities.

Likewise, the AHP report also states that education, research and community support—prime initiatives for support by venture philanthropists—make up only 12.1 percent of the use and distribution of donor funds. With this in mind, the concept of venture philanthropy, which involves taking risks on innovative and often unsubstantiated and collaborative projects, would be a radical departure for some hospitals because it benefits the community and not necessarily the hospital directly. The mission of health would have to supersede the individual benefits, with the understanding that with great risks comes the potential for great rewards.

Ernie Vargo, CFRE, president and chief executive officer of the Eskenazi Health Foundation, estimates that nearly 89 percent of all philanthropic giving comes from individual donors, making the prospect of diverting existing development efforts and resources to nontraditional sources all the more daunting. This fundamental transformation requires a willingness to consider a holistic approach to community health care, examining which factors outside of medicine can truly make an impact. Programs that emphasize prevention and awareness, such as nutrition, exercise and family support, can really affect public health on a

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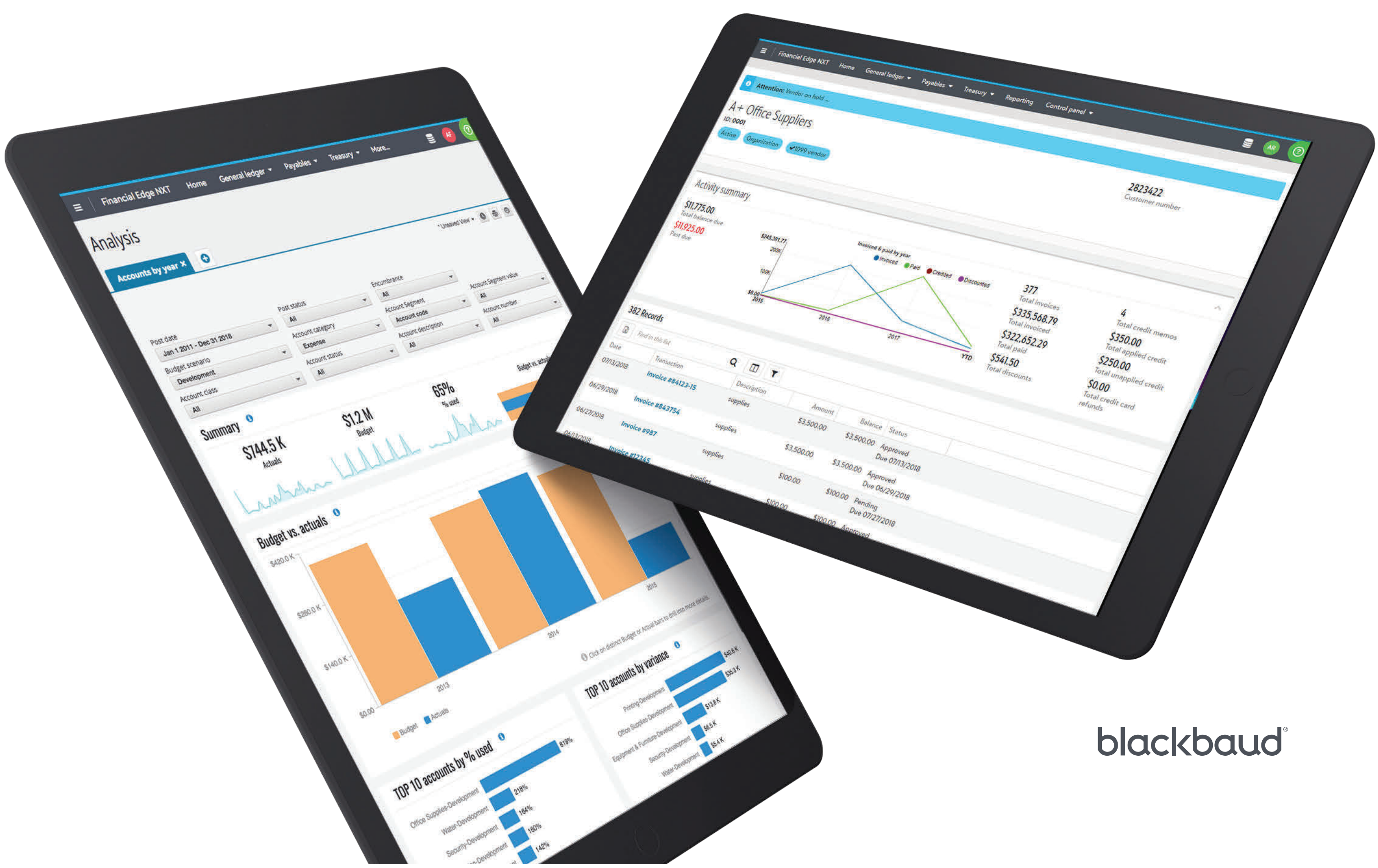

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broad scale while simultaneously impacting the bottom line.

Vargo noted that in the health care sector, risk tolerance can tend to be fairly low to avoid lawsuits, loss of future donors and risk of reputation. In an environment that expects outstanding results with minimal overhead, no marketing budget and guaranteed success, he recognizes the difficulty in approaching donors armed with the reality that "we have a chance to change the world, but we also might fail."

Successful application of the venture philanthropy model

Located in Indianapolis, Indiana, the new Sandra Eskenazi Center for Brain Innovation is transforming the approach to patient care for individuals diagnosed with brain conditions such as Alzheimer's disease, dementia and schizophrenia. While traditional cure-oriented research studies are often supported by federal and private funding, the evidence-based science discovered in the process can take an estimated 17 years to be implemented at a patient's bedside. During its inception, the center's founders sought to provide a more immediate impact by treating patients and caregivers as a team and expediting the introduction of cutting-edge technology through rapid translational and implementation science.

From a fundraising perspective, focusing on the revolutionary combination of patient care, familial support and real-time research posed unique challenges when approaching the capital campaign phase. The center would not primarily aim to

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find a cure, but rather to provide care for the whole person—mind, body and family—and expedite the translation of best practices discovered in the lab directly to patient care. With a mission that does not guarantee quantitative metrics, the Eskenazi team hoped to attract risk-taking donors willing to contribute transformative gifts.

As the daughter of Sidney and Lois Eskenazi, founders of the Eskenazi Health Foundation, Sandra Eskenazi was accustomed to a culture of philanthropic giving. However, it was her work as a physician's assistant that motivated her to become involved in supporting the brain center early in its inception. Her first-hand observation of the stigma and lack of resources associated with mental health issues compelled her to make a $5 million donation to the fledgling project that ultimately created a snowball effect. Eskenazi's involvement and willingness to take a leap of faith in hopes that significant changes could be made in the areas of Alzheimer's, dementia and schizophrenia provided credibility for the initiative and served as an impetus for future fundraising.

With her support, the team was able to hire a diverse interdisciplinary body of researchers who collaborated and recommended additional sources of grant funding that lowered the dependence upon private donations.

"We especially wanted to bring scientists together who were working either on dementia or schizophrenia. They soon discovered that their respective research was applicable to the other," Vargo said. "As a result of this initial work, a business model that anticipated $5 million in grants has resulted in more than $42 million."

The success of the campaign, originally expected to raise $50 million and run from 2015 to 2020, has been a welcome surprise for Vargo.

"We are close to reaching our goal," Vargo said. "The philanthropic goal has been revised to $13.5 million as a result of increased grant funding. The total project will exceed $50 million in total support."

The Sandra Eskenazi Center for Brain Innovation also serves as an example of how venture philanthropy promotes and nurtures contemporary approaches that generate significant social impact and reform standards of care.

"The Center is providing a model of care that is having dramatic results in keeping patients [with Alzheimer's] from long-term care facilities and

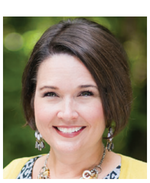
enabling caregivers to have a balanced life and mitigate their mental health issues," Vargo said. "This model of care is now being replicated. The early psychosis clinic is now the hub of care for the state of Indiana, and the Eskenazi Health physicians are remotely consulting with clinicians and patients around the state."

Offering multiple ways to give: A win-win situation

Vargo believes that although venture philanthropy is not perfect for every project or every donor, it is a viable model that represents a shift in strategic plans.

"Health care should be at the forefront of this movement," Vargo stated, citing the many failures pharmaceutical researchers endure before successfully developing life-saving and life-altering medications. Although venture philanthropy is still in its infancy, a gradual transformation is beginning to emerge in which NPOs are reassessing what it means to really make change.

"Donors have been willing to give away their assets their whole lives, and by nature they want you to succeed," Vargo said. "We just have to encourage risk-takers and educate the donor community on the power of transformative gifts as a viable alternative to traditional philanthropy."



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Venturing off-course: navigating complex gifts to stay on track

When organizations become more donor-centric, everyone thrives. The donor feels heard, energized and properly stewarded. As a result, you may witness some of the most transformative gifts of your entire career.

However, an increase in donor-centric approaches—including venture philanthropy—may lead to an increase in the number of complex gifts you might have to exercise judgment upon. Here are five techniques to consider and put into place now, even before that tricky gift crosses your threshold:

1. Be mindful of who you need to involve when considering a gift. It may vary depending on the gift but know your organization's gift acceptance committee. This is a formal committee that includes executives from the organization and the board of trustees. It cannot be up to the development officer to accept or deny complex gifts.

2. Your gift acceptance committee needs to make decisions ahead of time, so you are prepared to respond to individual donors and do what is best for your organization. For example, does your organization count bequests in a campaign?

3. Next, be aware of the gift acceptance policies that are in place to govern what development officers can do and what gifts you can and cannot accept. These should be written, board approved, and part of the ongoing operation of the institution. This way, when a donor proposes a complicated gift, you have a document you can point to. If an exception is to be made, the committee must approve it.

4. How important is it to your organization that you raise cash for this project? Your answer to this will help you decide whether you can accept a donor's proposal or if you should only accept outright gifts or long-term pledges.

5. Determining your campaign counting guidelines before the effort gets underway not only makes your life a lot easier, it is also best practice.

Stuart Sullivan, senior vice president with Graham-Pelton, provides senior level counsel on campaigns, strategic planning, various forms of giving and management of programs and staff. Stuart has served in executive positions at numerous well-known institutions, including Children's Hospital of Philadelphia and several top universities. Reach him at ssullivan@grahampelton.com or by calling 800/608-7955.

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