

Donors are looking for new ways to be more involved with the organizations they support. Businesspersons seek to apply their knowledge and skills to the nonprofits they support financially. Some of these new trends are modeled on the practices of venture capital firms.

Foundations in particular have the capacity to support charities in this manner. By doing so, a funder goes beyond supporting a *program*, and helps to build the capacity of the *organization* itself. A *Harvard Business Review* article identifies four areas of “organization building” that urgently need attention among nonprofits.¹

- ✓ Tracking the needs of the nonprofits’ clients and how those needs are changing
- ✓ Time for staff to plan new programs and processes
- ✓ Training and development for managers
- ✓ Sound operating systems for finance, quality, and human resource development

THINKING MORE LIKE A VENTURE CAPITALIST

The following chart contrasts some of the important differences between how venture capitalists relate to companies in which they invest, and how foundations traditionally work with nonprofits.

	Venture Capital Firms	Foundations
Risk Management	Anticipate 20% to be highly successful; others range from moderate success to total failure. Compensation ties to investment performance.	Little risk or concern re making a grant, and controls/incentives as in venture capital firms.
Performance Measures	Financial and organizational projections function as performance measures. The working relationship is defined around these clear objectives.	While a shared common goal to address a social problem exists, the nonprofit’s goal of maintaining <i>organizational</i> health is not shared by the foundation which focuses on <i>program</i> effectiveness.
Closeness of the Relationship	Venture capitalists are closely involved with the companies in which they invest. They may have a place on the board, provide coaching and mentoring, and participate in critical decisions.	After the grant is made, the foundation provides <i>oversight</i> , but not <i>partnering</i> . Feedback is often limited to written reports. If a foundation helps, it is usually at an arm’s length through a consultant.
Amount of Funding	Venture capital firms fund a small percentage of startups. Their portfolio is quite small, investing in a few select companies. Their contribution is a large part of the company’s capital.	Foundations too fund a small percentage of the applications they receive. But they invest in a much larger portfolio of nonprofits—and their grant often represents a small percent of needed funds.
Length of the Relationship	Five to seven years.	Usually one year. Foundations want nonprofits they support to move towards self-sufficiency.
The Exit	Venture capital firms intend to sell out down the road. There is a marketplace that accommodates this process.	There are no investment bankers ready to buy out the relationship with the nonprofit, leaving the organization to go out and look for new funding.

FIVE QUESTIONS FOR FOUNDATIONS

- ✓ Will your grants give the organizational support necessary to achieve program goals?
- ✓ What internal capacity is needed at the foundation to help build organizational strength at nonprofits?
- ✓ Is your grant portfolio weighted too much on programs at the expense of organization building?
- ✓ Do you keep close enough to nonprofits to help them build organizational strength?
- ✓ How could you experiment with new types of grants?

¹ Christine W. Letts, William Ryan, and Allen Grossman, “Virtuous Capital: What Foundations Can Learn from Venture Capitalists,” in *Harvard Business Review on Nonprofits*, Harvard Business School Press, 1999, p. 95. This *Giving Insight* is based on this article.