Building powerful agents of change:
a perspective from venture philanthropy

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What is venture philanthropy?

The origins of venture philanthropy (VP) can be traced back to the US dot.com entrepreneurs of the 1990s. Venture philanthropy cribbed from the venture capitalist's toolkit in an effort to create a 'new philanthropy' in much the same way that these entrepreneurs had created a 'new economy'. From the initial hubris and experimentation, VP gained credibility through the diligent work of pioneers such as New Profit Inc and Seattle Venture Partners in the USA, and later on this side of the pond through the work of Impetus Trust in London and The One Foundation in Dublin.

In essence, VP applies the approach of the hands-on investor to philanthropy: the idea is to provide a combination of substantial capital, expertise, targeted support and rigorous performance monitoring. Typically the VP approach helps smaller, growth-oriented charities and social enterprises to scale up their work and impact over a number of years.

For me and my colleagues here at Private Equity Foundation (PEF), this new approach to philanthropy reflects our fundamental belief in the value of building powerful, sustainable agents of change to tackle the problem of disadvantaged young people's wasted potential in our society, now and well into the future. We invest heavily in the charities—in their leadership, their staff, their volunteers, their infrastructure—because we believe they have the potential to be these agents.

From our perspective, charities are indeed businesses, but they are a very special kind of business. They are businesses whose bottom-line value is defined by their mission. Instead of being accountable to shareholders, they are accountable to beneficiaries, funders, trustees, and volunteers. And they are operating in highly complex environments, often in partnership with schools, government and commercial businesses, in order to help disadvantaged people transform their lives and their prospects.

Thus, whilst we borrow extensively from the skills and techniques of the private equity world, we always recognise that the aims and values underpinning each of our ‘investments’, and the nature of relationships between ‘investor’ and ‘investee’, are fundamentally different.

Where venture philanthropy works

Initially, PEF was set up as a voluntary initiative by eight senior private equity (PE) professionals. Because of our origins in the private equity world, PEF has a particular strength in helping charities to become more ‘market-ready’. This has become increasingly relevant in England due to the growth and development of the marketplace for services commissioned by schools, local authorities, and other statutory agencies. Six of the charities in our portfolio work in partnership with schools in England to improve attendance, behaviour, attainment, and life prospects with a focus on pupils from disadvantaged backgrounds. Four of these have adopted a social enterprise approach, deriving the majority of their income from contributions from schools that can see and judge the value of their work for themselves.

However, as with a commercial business, good products do not sell themselves. Highly effective ways of helping disadvantaged young people to succeed also need to be thoughtfully designed and marketed, so that schools can make the best decisions when it comes to buying in additional resources for their pupils. When we come across the charities we work with, they are often small and not financially well-endowed. Our work ensures that specialist charities with highly effective programmes understand the market, develop and reach schools with the right propositions, and ultimately deliver excellent outcomes in partnership with more schools.

We are already seeing results: the six school partnership charities in our portfolio have helped 30,000 more children and young people in England as a result of our support over the past four years. Significantly, this has been the result of investment in organisations, rather than direct funding for projects and services. We believe that this is not only a more efficient way of deploying philanthropic capital, but also builds in economic sustainability from the outset.

However, this approach undoubtedly carries a higher risk than straightforward project funding, and for this reason it requires extensive due diligence and active management and support. Even so, the journey is rarely smooth. One of our charities suffered the tragic death of its charismatic CEO and this set progress back by a number of years. Another charity was slow to make the required changes to its organisation and strategy, and therefore suffered more pain and disruption than necessary. Encouragingly, both of these charities are now in better shape than ever, and are delivering better outcomes than before, thanks to the sustained commitment and intense effort put in by the charities’ management, trustees and funders, as well as ourselves.

Occasionally, there is a good case not just for backing existing charities but for establishing new players. For instance, two years ago, we came across a compelling model of youth volunteering and whole-school improvement in the US. It was a highly successful charity called City Year that had proven impact in schools and on young people. We saw a clear opportunity to add something valuable to the UK landscape, and therefore set out to work with City Year and a small number of founding partner funders to adapt the model to UK needs. This September, City Year London launched with a group of 60 inspirational young corps members, who are all giving a year's voluntary service to help thousands of disadvantaged children to stay in school, achieve more and raise their aspirations.

We are now working on our next initiative, which aims to support disadvantaged, at-risk young people to bridge the treacherous transition between school and work. This work draws on our experience and learning in places as diverse as Hamburg (where we have an active investment), Bolton, and Tower Hamlets in London's East End. In all of this, we aim to create not just high-quality programmes backed by solid research, but sustainable business models and organisations. We believe this is the best way to create a lasting impact.

Critical to PEF's work is our team of voluntary and pro bono supporters drawn from more than 30 firms, including consultants, accountants, lawyers, IT experts and HR advisers, as well as private equity firms. This way of working is in our DNA, and PE investment professionals continue to act as joint leads with staff members on each new charity we work with. This model creates value the other way too: our work is an incredible way for these professionals to connect with the pressing social needs right on their own doorsteps.

It is also worth noting that the VP model can also be put to work in situations that are less amenable to social enterprise models. At The One Foundation, for example, my colleagues and I worked extensively with rights-based groups seeking long-term change in public attitudes and policies, through a combination of direct services, capacity building, research and campaigning. In these cases, we used the same core VP toolkit to develop great leaders, build influential organisations, and hold grantees to ambitious targets on performance and impact.

Nine lessons from PEF's experience

1. **Alignment of aims between VP investor and investee charity is the key to creating impact.** We cannot and indeed should not compel the charities we back to go anywhere they themselves do not want to go; we can only support them in getting to their chosen destination. If our aims diverge, sadly we must part company. This is why both investor and investee must conduct a thorough due diligence of each other before entering into a relationship.

2. **Producing change and impact takes time, money, effort, and nerve.** Turning around an established charity, or driving growth into new areas and new schools, is a considerable challenge even when a charity has strong, committed leadership and the backing of investors like PEF.

3. **We should strive to measure and understand impact.** Charity leaders and trustees need to assess their success on an ongoing basis against their own missions—their 'bottom line'. They need to cultivate the systematic use of data, both qualitative and quantitative, to support this. However, making this data really useful to all of us, within and across organisations, will require funders and charities to work much more closely together to establish common principles, standards, and definitions.

4. **The demands we make of charities these days are running ahead of the realities of their existence.** We look to charities to shoulder more of the load of public services, and to mobilise the latent human and financial assets in our communities. However, organisations often lack the right skills and talent. The voluntary governance model is weak, capital is scarce, and the sector is highly fragmented. We urgently need to invest in the capacity of the sector and reassess the suitability of existing structures for the greater demands we are making.

5. **More funders and donors should back whole charities, and support them to do what they already do well**, rather than incentivising them to create novel projects all the time to keep funders enthusiastic. Directing too much funding at programmes alone, and too little at management capability and infrastructure, cripples organisations in the long run.

6. **The interconnectedness of systems.** Charities are not the sole agents of change, of course. Narrowing the attainment gap in schools, for instance, relies on strong school leadership and excellent teaching practice, as well as on the additional support that specialist charity partners can provide to disadvantaged pupils, families, and communities.

7. **Many business people are enthusiastic about making a difference.** We have barely scratched the surface in terms of connecting professional pro bono expertise in the business world with the world of social change. Most of the people we engage are genuinely surprised by how useful their skills can be in this very different context, and by how much impact they can have without giving up their day jobs.

8. **There is much more potential for more of us to act together, across funders and across sectors.** We already share our knowledge and techniques with our member firm foundations. They and other private funders have also co-invested alongside us, but we believe the potential is much greater. We are following with interest the experience of Inspiring Scotland, a VP partnership between philanthropy, business and government north of the border, to see how large amounts of capital, expertise and networks can be coordinated to really 'move the needle' on a targeted problem.

9. **Finally, any form of philanthropy is a means to an end, so we should not be religious about which we use, but instead focus on impact.** Like many other foundations, we use a range of tools to help us achieve our mission. Whilst VP is a core tool for us because of our natural base of capabilities and resources, we also invest resources into commissioning research, building networks, and disseminating our findings, because our research and experience strongly suggest that these can be highly complementary activities. Ultimately, the achievement of impact against our mission is the standard by which we must be judged and held to account, by ourselves, by our trustees, and by the private equity community without whose philanthropic money, time and ambition we would not exist.