Business and philanthropy: The blurring of boundaries

Recent years have witnessed a dramatic increase in the philanthropic resources made available for global development, particularly from private sector sources who encourage the increased application of business thinking and models to philanthropic objectives. This blurring of boundaries is leading to the creation of promising hybrid models that combine aspects of business investment approaches and more traditional forms of giving.

The scale of the investments available to some of the new philanthropic entities is impressive. The Bill and Melinda Gates Foundation saw its endowment double with the gift of an additional US$31 billion from Warren Buffet announced in 2007. Internet search giant Google commits 1 percent of total equity and profits to its social investment/venture philanthropy arm, Google.org, to tackle pressing global issues such as climate change. These are simply the more well known of a growing trend of record donations of $100 million or more. The scale of giving means that private philanthropists have the potential to have a major development impact. The World Bank estimates that in 2005 private donors gave US$4 to $4.5 billion to international development – small compared to overall official development assistance, but high compared to many individual country donations.

While media attention has focused on the pledges of funds, equally if not more important for long term impacts is the new set of approaches being applied by some philanthropists and their foundations.Philanthropists schooled in today’s corporate world typically want to be more involved in the giving process and to bring to bear the experiences and methodologies from their business operations. They bring a heightened emphasis on business discipline, accountability, planning and results, but also a more risk-taking, entrepreneurial culture within philanthropic activities. As Adam Waldman of the philanthropic consultancy Endeavor Group notes, “It isn’t about hiring people and saying, ‘Let me know how it works out,’ it is about getting on planes, going to meetings and reading documents.” Dr. Susan Raymond of consultancy Changing Our World suggests “We are beginning to understand that the old categories of commerce, capitalism, and philanthropy do not serve the new generation.”

Use of venture capital or private equity style decision-making is increasingly widespread within philanthropy, but with a focus on development objectives rather than the expected financial return on investment. As a result, some foundations are now carefully considering not just whether a project will do good, but whether...
it will achieve greater impact than other potential social investments; just as a money manager selects a portfolio of companies that will achieve the highest return on investment. There is an increased focus on performance measurement, ongoing support to achieve goals, and creating an “exit strategy” when the recipient become self-sufficient. Inherent in the approach is a greater willingness to support more innovative proposals with recognition that some will fail, just as not all business start-ups succeed. A willingness to recognize a project is not working and curtail support is crucial to the model.

Acumen Fund is at the forefront of those organizations seeking to change the development paradigm from dependence to empowerment of the poor by using a “venture philanthropy” approach (see box 1). The non-profit global venture fund uses entrepreneurial approaches to address the problems of global poverty. They seek to prove that small amounts of philanthropic capital, combined with large doses of business acumen, can build thriving enterprises that serve vast numbers of the poor. Their investments focus on delivering affordable, critical goods and services – like health, water, housing and energy – through innovative, market-oriented approaches.

New players such as Acumen Fund are channeling more resources supporting enterprise development and entrepreneurship, perhaps reflecting a sense of the desire to help people provide for themselves in a sustainable manner; essentially, providing both the fish and the fishing pole. This focus on supporting entrepreneurs and business start-ups is something that comes naturally to those with a background in venture capital. Virgin Company CEO, Richard Branson, among the world’s biggest and most successful corporate risk takers, recently joined with like-minded entrepreneurs to launch a venture capital-philanthropic hybrid called: “Entrepreneurs Unite.” The group seeks to “close the investment gap” above microfinance and below traditional funding from banks and venture capital, focusing on start-up funds for sustainable social businesses and programming.

Such moves to support expansion of entrepreneurial businesses bear some resemblance to private equity models, but focused on a high social return. For example, the Skoll Foundation and Shell Foundation, both of whom emphasize enterprise-based approaches, have supported GroFin, the South African headquartered multi-country business development and finance company. GroFin integrates business development assistance with structured debt and equity investments to support locally owned start-up and growth enterprises in South Africa, Kenya, Uganda, Tanzania, Rwanda, Nigeria and Oman. In India, Google.org, the Omidyar Network, and the Soros Economic Development Fund recently created a US$17 million investment company that will provide capital to small and medium-sized businesses. This fund is intended to bridge

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**Box 1. The Acumen Fund**

The Acumen Fund was founded in 2001 with funding from the Rockefeller Foundation, Cisco Systems and several individual philanthropists.

Investment criteria:
- Potential for Significant Social Impact (focus on needs and long-term impacts of regions in the BOP)
- Potential for Financial Sustainability (5-7 year sustainability - correlates to the period of most commercial loans)
- Potential to Achieve Scale (objective to reach 1 million end users)

Capital commitments range:
- US$300,000 to $2,000,000 in equity or debt

Time-Frame:
- Payback or exit in roughly five to seven years.

Investment Due Diligence and Measuring Portfolio Performance:
- Before making investments, Acumen assesses the Best Available Charitable Option (BACO) to determine if there is another group in the charitable marketplace that can deliver the same product or service more cost effectively. This approach allows them to quantitatively compare their investments with purely business or charitable options.
- Teamed up with Google to build a web-based tool to share portfolio performance data across their international offices

Source: http://www.acumenfund.org/
the gap between personal lending and larger business investments. Such examples illustrate how the corporate foundations are able to draw on corporate expertise but benefit from freedom to experiment with different operational models without the pressure to be accountable to shareholders.

The blending of business approaches within philanthropic models is mirrored by a blending of philanthropic and corporate objectives. For a growing number of firms, philanthropy is no longer considered outside of corporate strategy. They recognize that there can also be bottom line benefits to integrating aspects of its philanthropic and business models that are in addition to any reputational boost. Increased interaction between staff of corporate giving units and business divisions can help build understanding within the company of how it can address the often complex social issues they face while operating in many parts of the world. The emergence of a cadre of personnel with experience in both fields is likely to encourage cross-fertilization of ideas and skills. As Bradley Googins, executive director of the Boston College Center for Corporate Citizenship notes, “Philanthropy is one of the more essential pieces of [a firm’s] global strategies because of the concrete relationships they have on the ground.”

Sustainable market ventures can result as companies, through the operations of their foundations, learn more about the market realities and the potential for serving and engaging the poor. According to findings from a McKinsey Quarterly survey of executives released in February 2008, some 80 percent of respondents said finding new business opportunities should play some role in determining which philanthropic programs to fund.

Today’s venture philanthropists are by no means the first to rely on business acumen in the philanthropic context. In founding the first major U.S. foundation in 1911, Andrew Carnegie called on the rich to “apply to their philanthropy the same entrepreneurial skills and zeal for efficiency that they employed in its accumulation.” Many of the features, perhaps with different terminology, have always been a part of successful philanthropic efforts. Yet they are now being applied on a whole new scale in terms of resources and geography. Bill Drayton, founder of Ashoka and pioneer of social entrepreneurship, asserts that “the business/social boundaries are simply collapsing” and that “philanthropy is one of those wonderfully antique words that we will stop using in 10 to 15 years.”

Yet despite the proliferation of foundations and individuals championing these blended models, it is important to note that many of the “philanthrocapitalist” experiments are still unproven. As remarked by Fay Twersky, director of impact planning at the Bill and Melinda Gates Foundation, “Sometimes we are working on the edge of what is known and what has been tried.” In terms of market success, Michael Edwards notes in his recent study of this phenomenon that many touted examples benefit from some

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**Box 2. Village Enterprise Fund**

The Village Enterprise Fund (VEF), a nonprofit organization based in California, provides education, mentoring and seed capital to create sustainable income-generating businesses in East Africa. Each new business is estimated to benefit as many as 30 people. As Silicon Valley venture capitalist Bob King sees it, US$100 to build a new business and potentially change the lives of 30 people is a solid investment.

Founded in 1987, VEF has helped create 16,000 small businesses, including vegetable stands, bicycle repair shops and goat farms. The majority of its funding is from Silicon Valley, and the Fund’s approach reflects the mentality of its donors. The approach appeals to long time contributor Pitch Johnson, a Palo Alto venture capitalist, who notes, “I just like the idea of people taking economic responsibility for their own lives. I connect with them because I know they are indulging in much of the same desire as people who are starting fancy companies, but they’re doing it on a survival level.”

So far, businesses funded by VEF have a solid track record. According to the Fund, 88 percent continue beyond 1 year and 75 percent are still going after 4 years. However, when businesses do go under, including due to external circumstances beyond the firm’s control, the Fund stays in line with its venture capital approach and does not bail firms out. According to founder Brian Lehnen, “We wanted to establish the precedent that they get one shot at it.”

form of subsidy and may not be sustainable in the longer term. Many of the new breed of philanthropists want to make a difference overnight, but the complexity of development challenges means that it is difficult to measure progress and determine what constitutes success – a problem faced not just by philanthropic organizations, but governments, international donors and multilateral agencies.

Building capacity among recipient organizations, be they NGOs or small scale enterprises, is crucial to their ability to use funds effectively. Encouragingly this is a part of the ethos of some of the venture philanthropic efforts mentioned. At the same time capacity needs to be in place within the donor organization itself in order to be able to track application of funds and results – not an easy task when a foundation supports efforts all over the globe and may have pledged to keep its secretariat deliberately slim to reduce overhead. Only 43 percent of U.S. foundations formally evaluate the work financed by their grants to nonprofit organizations according to a recent survey, but in an age of greater transparency, simply pointing to the level of donations may no longer suffice. There is a need for both companies and corporate foundations to better measure their impacts. Both can benefit from sharing lessons learned.

More comprehensive impact measurement will help to assess the extent to which hybrid philanthropic models can help solve entrenched social problems. Clearly traditional grant making and aid programs will continue to perform a vital large-scale function. Not all approaches from the private sector model can be transferred successfully to the charitable context, nor should they be. Investment alone is not enough. It must be aligned with government action to create conditions for growth and development. Nonetheless, the new venture capital style philanthropic models could yield important insights not just for other charitable organizations, but bilateral country donors, the international development community more broadly and the private sector itself. At the very least they deserve close monitoring and further research to track resources deployed and impact achieved.

The blurring of business and philanthropic models seems set to continue and should provide more options to support development initiatives that benefit the poor, their governments, and private sector alike. As Steve Case, co-founder of AOL and chairman of the Case Foundation, argues, “If we can unleash a new entrepreneurial, collaborative kind of philanthropy, we can create new patterns that will help reshape the entire system – combining the innovation of the business world, the passion and humanity of the non-profit world, and the inclusive, networked culture of the digital world, to generate transformative change.”

**Sources**


