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# Influences of Venture Philanthropy on Nonprofits' Funding: The Current State of Practices, Challenges, and Lessons

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*Keywords:* Venture philanthropy, grantmaking, funding instruments, funder-recipient relationship, nonprofit funders, survey, institutional theory

## Key Points

- This article looks at the current state of venture philanthropy practices in the nonprofit sector, based on data from a survey of 124 nonprofits that engage in venture philanthropy.
- The survey probes to what degree nonprofit funders are implementing core activities of venture philanthropy – use of market-based funding instruments, providing strategic assistance, board participation, and use of social and financial performance criteria.
- Seven venture philanthropy organizations were also interviewed for this article. Various tactics they have used to mitigate internal and external tensions are examined, including complying with diverse interests to balance conflicting views if internal tension is moderate and creating a separate entity if differences on primary goals are too significant.

## Introduction

The mid-1980s and early 1990s saw the emergence of an unconventional funding model, later collectively called venture philanthropy. New types of donors, such as young high-tech entrepreneurs and venture capitalists, began experimenting with various market-based approaches extracted from the venture capital model (Tyejbee & Bruno, 1984) for their grantmaking activities, with the objective of helping build capacity of the funded organizations (Frumkin, 2008; Moody, 2008). The Harvard Business Review article by Letts, Ryan

and Grossman (1997) widely advocated the idea of venture philanthropy (although the authors did not use this term) by stressing potential benefits for grantmaking foundations from borrowing a venture capital model.

Venture philanthropy was continually hailed by business schools and scholars (e.g., Michael Porter at the Harvard Business School) and popular media (e.g., Forbes [Gupte, 1999], Time [Greenfeld, 2000], and Fortune [Colvin, 2001; Whitford, 2000]) to the point that at the height of the venture philanthropy boom, proponents claimed it as possibly the “greatest revolution in the nonprofit sector” in its modern history (Community Wealth Ventures, 2001, p. 9). Although this claim faced sharp criticism from traditional philanthropic veterans, they still agreed that venture philanthropy had drawn the most significant attention among ideas for advancing the field of philanthropy in recent decades (Frumkin, 2003.) Despite these early proponents, the venture philanthropy “hype” appears to have disappeared today (Jacobson, 2013). Unlike Europe or other nations that also witnessed the growing field of venture philanthropy (Mair & Hehenberger, 2014; Organisation for Economic Co-operation and Development Global Network of Foundations Working for Development, 2014), venture philanthropy in the United States ebbed as the dot-com bubble burst. Yet, this considerable gap between the outlook for venture philanthropy then and today makes us wonder: What is the state of venture philanthropy? How has the idea

of venture philanthropy affected practices of nonprofit funders?

While some important philanthropy publications touched on the topic (Anheier & Leat, 2006; Fleishman, 2009; Frumkin, 2008), venture philanthropy has rarely been discussed as a worthy topic for scholarly investigation except for a few notable studies (Moody, 2008, 2009) or as a subset of the emerging field of impact investing and social venture capital funds (Miller & Wesley, 2010; Onishi, 2014). A serious absence of systematic data has blocked us from grasping the state of the U.S. venture philanthropy field (Van Slyke & Newman, 2006) since the publication of the Community Wealth Ventures' Venture Philanthropy Partners surveys (2000, 2001, 2002) over a decade ago.

To fill this gap, the study presented in this article collected and examined the original data of U.S.-based funding organizations that engaged in venture philanthropy practices. The majority of data were gathered through a survey conducted by a group of scholars at the Indiana University Lilly Family School of Philanthropy. Yet, because venture philanthropy still is an emerging field with limited prior literature, a qualitative interview method was employed to better comprehend the focal phenomenon (Glaser & Strauss, 1967). Therefore, this study employed mixed methods scrutinizing both descriptive statistics and qualitative interviews (Denzin, 2009; Webb, Campbell, Schwartz, & Sechrest, 2000).

To explore how the idea of venture philanthropy has affected practices of nonprofit funders, this study adopts implications from the institutional logic literature (Lounsbury, 2007; Thornton, Ocasio, & Lounsbury, 2012). Venture philanthropy refers to novel practices drawn from two fields oriented in competing "institutional logics:" the logic of venture capital investment that takes a hands-on approach, entailing the use of market-based funding tools (e.g., equity and loans) and closely monitoring fundees' operations in order to yield high financial return; and the logic of traditional philanthropic grantmaking that prescribes a hands-off approach, providing grants, often to

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public charities, without a demand for a financial return and avoiding intervention with the daily operation of the funded organizations. The literature of institutional logics then suggests that multiple logics that organizations face result in highly varied practices (Lounsbury, 2007). Thus, this study assumes that the field of venture philanthropy exhibits diverse (i.e., traditional philanthropy-oriented and venture capital-oriented) funding practices among organizations engaging in venture philanthropy.

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Second, this study discusses challenges that nonprofit funders have experienced when implementing a venture philanthropy model and tactics that they have used to mitigate the challenges and advance venture philanthropy.

### **Data and Research Method**

The study uses two types of data – descriptive statistical data gathered from the survey with 124 nonprofit funders, including private foundations and community foundations, and qualitative interview data. Because the empirical case of venture philanthropy is an emerging field and the focal phenomenon is not well understood (Van Slyke & Newman, 2006), numerous nuances needed to be clarified first. The interviews helped clarify certain issues. However, most prior publications on venture philanthropy are anecdote-based and the field lacks systematic quantitative data. Under such circumstances, using different (triangulation) methods to investigate a focal case via qualitative research is often “the most ‘adequate’ and ‘efficient’ way to contend with the difficulties of an empirical situation” (Glaser & Strauss, 1967, p. 18).

### **Survey Method**

The survey for the study was conducted by a group of researchers, including the author of this article, at the Indiana University Lilly Family School of Philanthropy (formerly known as the Center on Philanthropy at Indiana University) as part of a larger survey targeting both nonprofit and for-profit funders. As the field of venture philanthropy lacks a universally agreed-upon definition, extra caution was necessary in forming a proper sample and generating survey items.

To select sampled organizations, we used both scholarly and practitioner-oriented sources

(Babbie, 1998), including interviews with participants at the 2008 Social Capital Markets Conference and four industry experts. To maximize a search result for a sample, 16 sources – self-identified by sample organizations (e.g., directories of Social Venture Partners) and identified by a third party (e.g., Community Wealth Ventures, 2000, 2001, 2002; Fleishman, 2009; Moody, 2008) – were reviewed to identify 528 organizations. After this primary population was screened on five criteria (formal incorporation, a U.S. base, funding as a primary activity, an explicit social intent, and availability of contact information), the final population resulted in 291 organizations.

Multiple steps were taken to ensure the careful construction of scale items (Hinkin, 1995) to generate the scale items both deductively and inductively. We used a content analysis of interviews with three professionals and publications (Community Wealth Ventures, 2000, 2002) by two coders (Krippendorff, 2012) and included negatively worded or reverse-scored items in the questionnaire to attenuate response-pattern biases inherent in Likert-type scales (Idaszak & Drasgow, 1987). The preliminary scale items were pretested from August to October 2011.

A mixed-mode survey method was employed to administer the survey (Dillman, Smyth, & Christian, 2009), entailing online, mailing, and phone contact from November 2011 through May 2012. To reduce coverage and nonresponse errors, lower the costs of data collection, and increase response rate (Dillman et al., 2009), we personalized the survey emails and letters to prospective survey participants of this study and guaranteed their anonymity in writing. The survey was addressed to chief executive officers in small and mid-size organizations (i.e., organizations typically with fewer than 10 staff members and a CEO listed as one of the professionals in charge of the organization’s funding activities), or directors in charge of funding activities.

### **Interview Method**

To gain a deeper insight into venture philanthropy organizations’ practices and their challenges and tactics in dealing with these challenges, the

author also conducted semi-structured interviews along with a questionnaire (Yin, 2000) with seven nonprofit organizations. The interviewees were chosen in a purposive, rather than random or stratified manner (Eisenhardt & Graebner, 2007), to represent variety according to a number of prima facie characteristics such as structure, size, and age. Availability of access to the organizations was an important factor for selection, too. With permission from interviewees, the author took notes during and/or tape-recorded their interviews.

### Sample Description

For the entire survey, 146 responses were usable, a response rate of 53.7 percent for this study. Of the 146 organizations, 124 are nonprofits. Out of the 124 nonprofit funders that participated in this survey, 110 are public charities, eight are private foundations, and six are other nonprofit organizations, such as those designated as Internal Revenue Code 509(a)(1). These nonprofit organizations in our sample are, on average, 27 years old, ranging from 4 to 99 years old. The average asset size is \$296 million (the mode being \$500 million, ranging from \$1 million to \$1 billion). The average budget size is \$360.1 million (the mode being \$1 million, ranging from \$1 million to \$10 million).

The amount of funding is \$23.97 million on average over the three years prior to the survey year. Close to half (45 percent) of the survey respondents answered that their funding amount was within the range from \$1 million to \$10 million. This result is noteworthy, especially compared to the results of Venture Philanthropy Partners survey (Community Wealth Ventures, 2002). In our survey, 22.9 percent of the participants had less than \$1 million to fund, as opposed to about 50 percent in the Venture Philanthropy Partners study. Conversely, 32.3 percent of our survey participants had more than \$10 million to fund, whereas only less than 10 percent of the participants had more than \$15 million in capitalization in the Venture Philanthropy Partners study. These results thus imply that the capitalization in the venture philanthropy field seems to have grown over the past decade, while it should also

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be clearly noted that the two studies used different samples; thus, more comparable studies will be necessary to offer more conclusive results.

While nonprofits were the primary participants in the survey (79 percent), 20 percent of the respondents also supported for-profit social ventures. The survey results also reveal the international distribution of venture philanthropy funding; a total of 32 percent of the survey participants funded organizations outside the United States. Furthermore, 12 percent of the survey participants indicated that they supported other types of recipients, including individuals (e.g., artists and minority and low-income individuals), cooperatives, faith-based organizations, and local collaborative efforts.

### Venture Philanthropy: A Hybrid Model of the Contested Nature

Adopting an institutional logic view (Pache & Santos, 2013; Thornton, Ocasio, & Lounsbury, 2012), this study argues that venture philanthropy is a hybrid contested model embedded in two competing institutional logics: the logic of traditional philanthropic grantmaking that pursues mission as the primary goal and the venture capital investment logic that seeks maximization of profit through market-based approaches. Since its origin – in particular as high-tech entrepreneurs and venture capitalists introduced venture philanthropy as a “solution” to long-established grantmaking activities (Letts et al., 1997) –

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venture philanthropy has reflected this contested nature.

The literature of institutional logics posits that when organizations face multiple logics, heterogeneous practices are the result (Lounsbury, 2007). Thus, this study assumes that the field of venture philanthropy exhibits diverse (i.e., philanthropy-focused and venture capital-focused) practices among organizations. The literature of institutional logics also suggests that by facing multiple competing logics, organizations adopt a wide range of tactics that mediate constraints from competing demands, such as avoidance of following certain norms and practices and negotiation between different stakeholders (Pache & Santos, 2010). These tactics are critical for organizations engaging in unconventional practices, such as venture philanthropy, in order to be accepted by the larger group (Mair, Mayer, & Lutz, 2015). In line with these implications, the subsequent sections discuss results drawn from the descriptive statistics and interviews.

### Venture Philanthropy Practices

Scholars (Moody, 2008) have often noted that activities conceived of as venture philanthropy practices vary greatly. Despite the absence of a universal agreement on what venture philanthropy practices are, the prior relevant studies shed light on a core set of principles and practices that define venture philanthropy organizations (Community Wealth Ventures Inc., 2002; Frumkin, 2008; Miller & Wesley, 2010; Moody, 2008).



In its early days, proponents emphasized venture philanthropy's mimicry of commercial venture capital practices and goals that serve investors' values (Community Wealth Ventures, 2000). Later studies offered more concrete practices that characterize a venture philanthropy model. For instance, Moody (2008) uses the definition set forth by the Center for Venture Philanthropy in Silicon Valley:

"[A] core set of principles and practices that are espoused by the majority of venture philanthropy organizations .... 1) Investments in a long-term (3-6 year) plan for social change; 2) a managing partner relationship; 3) an accountability-for-results process; 4) provision of cash and expertise; and 5) an exit strategy" (Gray & Speirn, 2004, p. 1). Venture philanthropy involves close monitoring of predetermined performance goals and measurements as well as joint problem solving with nonprofit investees throughout the long-term duration of the funding" (p. 9).

Frumkin (2008) summarizes three core principles guiding such a variety of venture philanthropy practices, namely unconventional funding tools, a close relationship between funder and fundee, and rigorous performance measurement. Furthermore, some studies use a narrower definition focusing on commercial practices, such as equity investment in the early stages of for-profit social ventures (Miller & Wesley, 2010). Indeed, leading venture philanthropy organizations, such as the Acumen Fund and the Calvert Foundation, have actively utilized market-based funding instruments (e.g., loans, equity). This suggests that a use of these market-based funding instruments also characterizes venture philanthropy practices, although it is limited. The current study investigates the following four venture philanthropy practices:

- Use of various (philanthropic and market-based) funding instruments,
- Provision of strategic assistance through a close funder-fundee relationship,
- Taking seats on the boards of funded organizations, and

TABLE 1 Results: Funding Returns

Primary Return			
Social Return		Financial Return	
Strongly agree	43.6%	Strongly agree	2.0%
	32.7%		6.0%
	20.8%		18.0%
	2.0%		35.0%
Strongly disagree	0.9%	Strongly disagree	39.0%

- Use of blended (social and financial) performance criteria.

**Results**

Following implications of the institutional logic literature (Lounsbury, 2007), this study hypothesizes that the two competing logics – traditional philanthropy and venture capital investment – shape venture philanthropy practices; as a result, the field of venture philanthropy exhibits heterogeneous (i.e., philanthropy-influenced and venture capital-influenced) practices among venture philanthropy organizations. As such, this study examines primary funding returns as factors that explain the competing institutional logics.

**Social Versus Financial Funding Returns**

Our survey participants were asked to rate each of the following statements on a five-point scale ranging from “strongly disagree” to “strongly agree”:

- Statement 1: “Our organization is willing to give up some financial return if we have to, as social return is our primary concern” (the philanthropy logic).
- Statement 2: “Our organization is willing to give up some social return if we have to, as financial return is our primary concern” (the venture capital logic).

Most participants (76.3 percent) answered that they pursue mission as their primary concern. (See Table 1.) It is noteworthy, however, that eight percent of our survey participants strongly agreed or agreed with the second statement indicating that their primary return is financial. And about one-fourth of participants said they pursue mixed (mission and finance) returns. These results underscore the idea that the venture capital logic, as well as the philanthropy logic, has penetrated the field of nonprofit funders.

**Philanthropic Versus Market-Based Funding Instruments**

As the venture philanthropy model applies venture capitalist principles to philanthropy (Eikenberry, 2006), some nonprofit organizations have experimented with market-based funding instruments used by venture capitalists, such as equity and loans. Recent publications about impact investing report how impact investors – often, for-profit funders – use market-based funding instruments (Bugg-Levine & Emerson, 2011), but very little information is available to inform us how market-based funding instruments have been adopted within the nonprofit and philanthropic community. Given this gap in our knowledge, our survey asked the respondents how often they used each of the following funding instruments: grants, equity, equity through program-related investments (PRIs), near-equity (e.g., convertible debt), loans, and loans through PRIs. (See Table 2.)

*These results highlight an emphasis on the use of market-based funding instruments among some venture philanthropy organizations, although not the majority.*

As expected, 67 percent of our survey participants “always use” or “often use” grants; conversely, more than 70 percent of the survey participants “never use equity” (including equity through PRIs and near-equity), and more than 60 percent “never use loans.” Despite these expected results, there are some notable findings that warrant further discussion. First, more than 12 percent of the survey participants “always use” or “often use” equity investment, and 22 percent “always use” or “often use” loans. Second, more than 23 percent of our respondents “never use” or “rarely use” grants. In addition to the funding instruments listed in the questionnaire, other market-based funding vehicles that survey participants mentioned include forgivable debt and loan guarantees with technical assistance. These results highlight an emphasis on the use of market-based funding instruments among some venture philanthropy organizations, although not the majority, which supports the prediction that the venture capital logic has affected practices within the nonprofit and philanthropic community.

### Provision of Strategic Assistance

One primary technique that commercial venture capitalists widely use is a high involvement in day-to-day operation of their funded ventures, often through seats on boards (Tyejbee & Bruno, 1984). Venture capitalists rely on this technique as a way to provide nonfinancial resources as strategic assistance to their funded ventures, which are usually startups that lack critical organizational capacity. Provision of both financial and nonfinancial resources is considered to be the most effective way to promote the growth and self-sufficiency of investees, all of which leads to higher

investment performance (De Clercq & Dimov, 2008). Philanthropic scholars (Fleishman, 2009; Frumkin, 2008; Moody, 2008) echo that a close funder-fundee relationship – often called “high engagement” (Community Wealth Ventures, 2002) – is a defining element of a venture philanthropy model, also.

When asked how often they provide nonfinancial resources (e.g., strategic advice about management or programs, IT) to their funded organizations, 95 percent of respondents said they provide nonfinancial resources to their funded organizations at least sometimes: 41.3 percent “always,” 35.6 percent “often,” and 18.3 percent “sometimes.” (See Table 2.) These results are consistent with the results in the 2002 survey report by Venture Philanthropy Partners. Clearly, the provision of strategic assistance is one of the most widely accepted practices of venture philanthropy.

### Participation on the Boards of Funded Organizations

Commercial venture capitalists’ involvement in their investees often takes a form of participation on the board of these investees. For nonprofit and grantmaking organizations, a close relationship between funders and fundees also occasionally takes the form of holding a seat on the board (Community Wealth Ventures, 2002), as well as providing strategic assistance. Yet, unlike provision of strategic assistance, board participation has often been discussed as a controversial practice in the philanthropic field (Ostrander, 2007); this practice can change the important nature of the traditional philanthropic relationship (“donor-centered philanthropy”) that is based on a two-way, mutual, and interactive funder-fundee relationship. A closer funder-fundee relationship becomes an agency-principal relationship (“donor-controlled philanthropy”) in which funders oversee and exercise authoritative control over fundees’ operations (Ostrander, 2007). Still, Venture Philanthropy Partners’ 2000 study (Community Wealth Ventures, 2000) found some venture philanthropy organizations, including New Profit Inc., planning to take seats on the boards of their funded organizations. Two years later, the Venture Philanthropy Partners



TABLE 2 Results: Venture Philanthropy Practices

	Never use	Rarely use	Sometimes use	Often use	Always use
Funding Instruments					
Grants	13.7%	9.8%	8.8%	18.6%	49.0%
Equity	74.4%	7.0%	5.8%	10.5%	2.3%
Equity through PRIs	72.9%	14.1%	11.8%	1.2%	0%
Near-equity	74.4%	5.8%	9.3%	7.0%	3.5%
Loan	60.5%	9.3%	8.1%	10.5%	11.6%
Loans through PRIs	67.0%	11.4%	12.5%	6.8%	2.3%
Provision of Strategic Assistance	1.9%	2.9%	18.3%	35.6%	41.3%
Board Participation	48.1%	17.3%	16.3%	8.7%	9.6%

study found that seven of its 42 respondents (16 percent) were actually taking seats on the boards of directors of their funded organizations, and another four organizations would consider doing so depending upon the circumstances (Community Wealth Ventures, 2002). Likewise, Omidyar Network (2015) specifies that it often serves on boards of funded organizations, as well as consulting as a strategic partner. Given the implications from prior studies, this study predicted that the technique of board participation would still be utilized by venture philanthropy organizations, albeit by a limited number.

Results from our survey support this assumption. Similar to previous studies by Venture Philanthropy Partners, board participation was not found to be as widely accepted as the provision of strategic assistance. Asked how often the respondents retain the right to actively participate on the boards of their funded organizations, 48.1 percent answered “never” and 17.3 percent answered “rarely.” Conversely, 10 percent of the respondents answered “always,” 8.7 percent answered “often,” and 16.3 percent answered “sometimes,” suggesting that a total of 35 percent of the

nonprofit respondents retain the right to actively participate on the boards of their funded organizations, at least sometimes. (See Table 2.) While this small percentage indicates that board participation is not a critical element for many venture philanthropy organizations (Community Wealth Ventures, 2002), the overall results underscore an influence of the venture capital logic upon practices of nonprofit funders, despite its controversy.

### Performance and Outcome Evaluation Criteria

Venture capitalists seek superior investment performance and tangible financial consequences. There has been a general consensus among the prior studies that by following the venture capital investment model, venture philanthropy organizations place heightened emphasis on performance measurement (Anheier & Leat, 2006; Frumkin, 2008). As venture philanthropy involves two competing logics, philanthropy versus venture capital investment, venture philanthropy organizations are expected to seek not only mission-related outcomes, but also financial outcomes (Emerson, 2003), albeit in a varying degree depending on which logic is dominant. To ensure

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that their funding activities generate concrete results, venture philanthropy organizations use “specified benchmarks and required performance reports” (Fleishman, 2009, p. 7). Although many venture philanthropy organizations seek social return as their ultimate goal, some organizations pursue superior financial performance. (See Table 1.) Indeed, the 2002 report published by REDF (formerly known as the Roberts Enterprise Development Fund) reveals that its committee members meet monthly to “review financial and operational performance, identify areas of concern, and help ensure that these concerns are addressed in accordance with the enterprise’s business plan” (Tuan & Emerson, 2000, p. 5). Venture philanthropy organizations, such as the Acumen Fund (Trelstad, 2009), explicitly seek blended returns by pursuing both social and financial performances.

To empirically probe current performance measurement practices in the venture philanthropy field, our survey asked respondents to answer which social and financial performance criteria are “extremely important” (score 5), “very important” (score 4), “moderately important” (score 3), “slightly important” (score 2), and “not important” (score 1). A higher score indicates greater importance attached to a given indicator by the survey participants.

As implied by the institutional logic literature, while social performance criteria are more important (3.99 out of 5), venture philanthropy orga-

nizations are also found to seek financial performance (2.53 out of 5). Among social performance indicators, “alignment with your organization’s social mission” (4.59) and “meeting the needs of target beneficiaries (clients)” (4.55) are by far the most important criteria. Within financial performance indicators, those measuring recipient-based outcomes seem more important than those measuring funder-based outcomes. The results may be interpreted such that the recipient-based financial outcomes refer to the organizational health and capacity of funded organizations – the main goal of venture philanthropy. In sum, the results from our survey confirm that while social outcomes are the primary goals of venture philanthropy organizations, financial outcomes are of important concern, too.

### **Dealing With Challenges From Competing Logics: Lessons Learned**

Similar to Moody’s observations back in 2008, our survey findings reveal that activities under the banner of venture philanthropy remain highly diverse today. The underlying factors creating this heterogeneity are competing demands from two different institutional logics. As a result, the significant heterogeneity of organizational practices in the venture philanthropy field has created challenges internally and externally for many nonprofit funders. To advance unconventional ideas and practices, such as venture philanthropy, organizations must mitigate such internal and external tensions. Through this analysis of survey data and the interviews with seven organizations, numerous challenges can be summarized as intra-organizational challenges and interorganizational challenges. These findings then lead to defining the tactics these organizations utilize to mitigate internal and external tensions and specific recommendations for nonprofit funders that are engaging in, or considering using, a venture philanthropy model.

### **Dealing With Intraorganizational Challenges**

#### *Tension Among Board and Staff*

Intraorganizational challenges are often exemplified as internal tensions among key stakeholders, in particular board members and/or staff, due to

TABLE 3 Descriptive Statistics of Funding Performance Criteria

Category		Indicator	Importance Score
<b>Criteria: Social Performance</b>			
Client-based outcomes	Qualitative outcomes	Meeting the needs of target beneficiaries	4.55
	Quantitative outcomes	The number of target beneficiaries served (e.g., students in attendance)	3.78
		Concrete outputs for target beneficiaries (e.g., the number of jobs created)	4.05
Impact in society	Scalability	Scalability of funded programs to have social impact	3.52
	Influence on policies	Advancement of the social cause by influencing policymakers	3.26
	Long-term outcomes	Possibility of long-term social impact by changing social systems	4.10
Mission and donor-centered outcomes	Alignment with mission	Alignment with your organization's social mission	4.59
	Alignment with donors' giving intent	Donor satisfaction	4.06
<b>Overall social performance</b>			<b>3.99</b>
<b>Criteria: Financial Performance</b>			
Recipient-based outcomes	Total revenue	Total revenue of funded organizations	2.85
	Sales revenue	Earned income/sales revenue of funded organizations	2.74
	Philanthropic revenue	Philanthropic donation/grant revenue of funded organizations	2.91
	Assets	Growth in net assets of funded organizations	2.88
	Other funding sources	Acquisition of another institutional funder besides your organization	2.94
	Fundees' IPOs	Probability of funded organizations' initial public offering (IPO)	1.33
Funder-based outcomes	Internal rates of return	Internal rates of return	2.42
	Direct financial benefits	Direct financial benefits for your organization or donors/investors	2.17
<b>Overall financial performance</b>			<b>2.53</b>

The table presents mean values of each survey item based on 5-point scales (Not important = 1; slightly important = 2; moderately important = 3; very important = 4; extremely important = 5).

*A lot of learning activities are necessary. Business people can give us useful comments on proposals, so we invite business people as members. This combination between nonprofit and business resources produces a greater impact.*

diverse, sometimes diverging, goals among these key stakeholders. The tension may be attributed to diverse professional and educational backgrounds of those involved in funding decision-making. The institutional logic literature (Pache & Santos, 2010) theorizes that when an organization involves those who represent competing logics – the philanthropic logic (e.g., former grant officers) and the venture capital logic (e.g., former investment capitalists) – pursuing two conflicting goals, they are more likely to use tactics, such as “manipulation,” “negotiation,” or “co-opting.” More specifically, this study’s interviewed organizations were found to have resorted to the following tactics:

- Co-opting those with diverse backgrounds to the board and professional staff, while constantly reminding them how their diverse views and expertise will help accomplish a goal.
- Complying with or negotiating different views and approaches in order to balance conflicting views within an organization.

Two further notes are warranted here. First, many interviewees indicated that inviting those with business backgrounds necessitates their “learning attitude.” For instance, one Midwest-based organization with \$1 million in assets states, “A lot of learning activities are necessary. Business people can give us useful comments on proposals, so we invite business people as members. This combi-

nation between nonprofit and business resources produces a greater impact.” Second, the complying with or negotiating tactics relate to flexible attitudes in using various elements of a venture philanthropy model. To balance conflicting demands, most interviewed organizations were highly selective of certain venture philanthropy approaches without using all discussed above. For instance, one organization pursues both social and financial return, yet it utilizes only grants and does not seek the board participation. Another organization has frequently served on the boards of its recipients, but seeks social return only.

#### *Tension Due to Multiple and Conflicting Goals Among Stakeholders*

If a discrepancy between multiple views of those involved in funding decisions is significant, balancing these views within an organization can be highly difficult or impossible (Pache & Santos, 2010). If the internal power structures are equally strong, an organization cannot hold these internal conflicts and may experience organizational break-up or paralysis. In the organization’s attempt to implement both philanthropy and venture capital approaches (e.g., pursuing both social and financial returns to the same degree), the gap between diverging views may become too large to fill using the aforementioned tactics. In such a case, creating a separate entity (e.g., a limited liability company) dedicated to pursuing a different goal is a decoupling tactic considered to be more effective than co-opting or complying.

One California-based organization has successfully utilized this tactic. This organization has always pursued financial consequences as well as social impacts as its primary goals. But when its investors began demanding higher financial return, the organization’s attempt to balance mixed returns sparked serious tensions among stakeholders, which then led to a loss of control over managing funding programs and focus. A separate for-profit entity was then created to pursue market-rate returns only, while the parent organization remains as a nonprofit 501(c)(3). The executive director of this organization reflected on their experience and decisions:

Venture philanthropy entails very diverse goals, social versus financial. We cannot compromise either. We created a for-profit as a separate entity, and it focuses on financial performance with market-rate return. This entity needs to be fully independent from our nonprofit entity. Conflicts still exist, but to a lesser degree.

## Dealing With Interorganizational Challenges

### *External Tension With Funded Organizations*

Venture philanthropy organizations' close involvement in the operations of their funded organizations, particularly in the form of board participation, has been discussed as a controversial practice among nonprofit and grantmaking professionals (Ostrander, 2007). If not properly executed, this practice creates serious tension between funders and fundees, and hampers, rather than promotes, overall management and program implementation. Interviews for this study reveal a variety of strategies taken by the interviewed organizations:

- Openly communicating, to balance and respect different views of funded organizations by accommodating their needs and practices.
- Avoiding a close involvement in all areas of funded organizations' operations.

Most interviewed organizations stated that they used the first tactic (open communication and balancing). Several helpful practices emerged during the interviews. An Indiana-based organization stated, "Don't push recipient organizations to follow our goals; instead, help them meet their own goals." Another Indiana-based organization avoided using the term "performance measurement," instead choosing the term "accountability framework." The vice president of this organization, which pursues both social and financial returns, stressed that its success in working with its funded organizations is attributed to allowing funded organizations to create an assessment method, rather than imposing its own method. The second tactic is exemplified by avoiding ongoing monitoring of funded organizations' operations and being involved in funded organizations strictly as service volunteers. Further, success-

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ful venture philanthropy organizations address creative questions. For instance, a director of a Midwest-based organization stated,

We don't monitor operation of our recipients on an ongoing basis; instead, [we] look for their sustainability and innovation. Sustainability is not limited to economic factors, but also about program management. So we often ask, "How are services going to continue after the funding term?"

### *External Tension With Other Organizations*

As venture philanthropy organizations often tackle social issues deeply rooted in the existing social, political and economic systems, conflicts with other organizations, such as government agencies and long-standing professional associations, may occur. To deal with such external tensions, interviewed organizations were found to use tactics

*Although venture philanthropy proponents have refined their practices to make them more suited to philanthropic traditions, some highly business-influenced practices (e.g., use of equity, taking seats on the board, evaluation methods seeking financial performance) continue to be employed.*

utilized to mitigate internal tensions, such as negotiating and complying, but added a different tactic of “avoidance” (Pache & Santos, 2010):

- Complying with or negotiating different interests and needs to balance conflicting views with other organizations, pursuing a shared goal.
- Avoiding work with organizations if different views cannot be negotiated.

There were two distinct groups, one using the first tactic and the other using the second tactic. A vice president at an Indiana-based organization suggested that the first tactic is more strategic, facilitating a greater social impact. Yet one interviewee who works for one of the pioneer venture philanthropy organizations revealed difficulty in working with other organizations – especially those with different ideas and goals – in the emerging field of venture philanthropy. The absence of a commonly accepted definition seems to have aggravated this difficulty:

People avoid using the term “venture philanthropy” anymore, and a model of venture philanthropy varies among organizations. There is a “push back” from other organizations. A high-engagement model is different from the venture philanthropy model, which needs to follow the venture capital model.

## Conclusion

The goal of this study has been to explore venture philanthropy practices by nonprofit funders and uncover the challenges these venture philanthropy organizations have faced, along with tactics they have utilized to deal with these challenges. Due to its exploratory nature and reliance on descriptive statistics, this study is not without limitations. Yet, using survey data from 124 nonprofit organizations engaging in venture philanthropy and interview data from seven venture philanthropy organizations, this study illuminates the complex landscape of today’s venture philanthropy. Although venture philanthropy proponents have refined their practices to make them more suited to philanthropic traditions, some highly business-influenced practices (e.g., use of equity, taking seats on the board, evaluation methods seeking financial performance) continue to be employed.

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