

## Philanthropy 2.0: Leveraging the Venture Capital Model

by: Sean Foote, Labrador Ventures – November, 2007

*Rather than threatening the world, the venture capital-entrepreneurial complex is creating business models to save the world.*



Sean Foote

As seen in the...



Venture Capital Journal

This incredibly long presidential election cycle will eventually end with one president's farewell address and another's Oath of Office. This brings to mind the famous farewell address of Dwight Eisenhower, where he warned of the "military-industrial complex," saying "we must never let the weight of this combination endanger our liberties or democracy."

Eisenhower never anticipated the latest industrial complex – the *venture capital-entrepreneurial complex*. But this complex is different. Rather than threatening the world, the venture capital-entrepreneurial complex is creating business models to save the world. Welcome to Philanthropy 2.0.

In the world of Philanthropy 2.0, it's not just about giving back. It's about maximizing that impact in whatever innovative way possible. Take advantage of Silicon Valley's social networks and business acumen. Reinvent business models.

One challenge of philanthropy is reaching scale. Traditional philanthropic models start small and work hard to become large, just like traditional companies like Ford or GM in the 1920's. But today's startups sidestep one part of that by outsourcing their work, leveraging the skill sets and assets of other companies to achieve their objectives.

**Entrepreneurs Foundation (EF)** is an example of utilizing leverage for maximizing impact. EF's goal is simple – to increase individual and corporate commitment to community involvement. The innovation? Leverage hundreds of companies and thousands of their employees to impact communities. The community cause celebre? Whatever the company wants it to be.

EF, started nine years ago by Gib Myers of Mayfield Fund, works with companies of all sizes (particularly emerging companies) to design, create and manage corporate foundations and community programs. Recognizing cash is not readily available at these young companies, EF uses another currency to help these companies become active citizens in their community-stock options.

Pre-IPO stock is set aside in a company foundation. A small part of this stock is used to pay Entrepreneurs Foundation. Then, EF acts as an outsourced director of community relations, helping companies create and execute strategic community programs that match their businesses and employee interests while also serving community needs.

"It's the best bargain I've negotiated since becoming CEO," says Ashley Stirrup, CEO of Ultriva. Ashley and Ultriva became one of EF's 500 member companies, joining companies from Aruba Networks to Yahoo. "We're doing something for society while building a business, and it's not a distraction."

Indeed, it's this combination of business and societal good that is the key to EF's success. "Our companies report that hiring and team-building are easier when the firm has a community service program," reports EF Executive Director Diane Solinger. When surveyed in the Cone Corporate Citizenship Study, 81% of Americans say a company's commitment to a social issue is important when they decide where to work.

EF also leverages relationships with venture capitalists, who act as a sales force to their portfolio companies. Venture capitalists from Austin Ventures, Charles River Ventures, Focus Ventures, Kleiner Perkins Caufield & Byers, Mayfield Fund, New Enterprise Associates, Sequoia Capital and Trinity Ventures encourage their portfolio companies to set aside equity for the community through EF.

Leveraging Silicon Valley's startup companies has allowed Entrepreneurs Foundation to do far more than a traditional philanthropic model. EF now works with 500 companies, 200 venture capitalists and 15,000 employees distributing \$8 million and countless volunteer hours to 200 community service organizations.

"In the world of Philanthropy 2.0, it's not just about giving back. It's about maximizing that impact in whatever innovative way possible."

### Venture Philanthropy

Investing in new technologies, funding entrepreneurs and taking gambles on exciting ideas are commonplace for venture capitalists. Now,

LABRADOR VENTURES

101 UNIVERSITY AVENUE

FOURTH FLOOR

PALO ALTO, CA 94301

TEL: 650-366-6000

FAX: 650-366-6430

---

this successful model and hard-learned experience is being replicated to address philanthropic goals. Enter “venture philanthropy” funds, the Philanthropy 2.0 way of allocating capital to social causes.

Traditional entities such as CARE and UNICEF are large organizations designed to send dollars through established channels to (often) large programs in under-developed countries. Think of this structure as the IBM or Microsoft of capital allocation—large and successful, but also traditional and with high costs and little innovation.

Venture philanthropy funds seek startup ideas to grow to the next CARE or UNICEF – the next Google of social improvement.

An early leader of this approach is the Acumen Fund, a non-profit global venture fund investing in entrepreneurial approaches to solving the problems of global poverty. The organization seeks to prove that small amounts of philanthropic capital, combined with business acumen, can build thriving enterprises that target the 4 billion people living on less than \$4 a day.

Stuart Davidson, one of my partners at Labrador Ventures, sits on the Acumen board. “We are organized and operate just like any other venture capital firm,” he says. “We have focus areas and a disciplined process in selecting and managing philanthropic investments and measuring social and financial returns.”

The investment approach of the Acumen Fund even sounds quite similar to a typical venture fund. Acumen focuses on design, pricing, distribution and marketing of critical goods and services, with just one difference – to the poor.

At the same time, the fund intends to be sustainable, the latest buzzword for not requiring additional grants to fund operations. Its risk management team aims to generate positive returns where possible and recover a substantial portion of capital to reinvest in new philanthropic ventures.

This is one in a series of monthly columns on seed and early stage investing that Labrador Ventures was selected to contribute to the *Venture Capital Journal*.

The impact of the organization since its founding in 2001 is remarkable. In this short time, it has improved the lives of over one million people through its investments, mostly in the form of loans and equity. Because of Acumen’s investments, more than 500,000 people have been protected from Malaria, 12,000 women have received Microfinance Loans, 5,000 farmers have increased their income by purchasing drip irrigation systems, and 11,000 families have been able to buy life-saving de-fluoridation water filters.

The venture model of philanthropy is an extremely efficient method of capital allocation, sidestepping much of the overhead of traditional methods. Through Acumen, as little as \$50 can protect 12 individuals from the risks of Malaria for five years, while \$100 allows three Pakistani women to create sustainable livelihoods to support themselves and their children.

### **People-Powered Capital**

*Venture philanthropy funds seek startup ideas that could grow to the next CARE or UNICEF – the next Google of social improvement.*

The Internet has revolutionized many businesses, and now Philanthropy 2.0 is starting to harness the medium to solve many startup problems.

One big problem of socially focused organizations is money. Most organizations must raise large sums of money to run their infrastructure and fund their social efforts.

Yet Internet companies such as *YouTube* or *LinkedIn* have proven the Web’s ability to bring people together and aggregate audiences. Socially focused companies are learning from these Valley startups, using the Internet to generate dollars and partnerships.

A great example of Internet philanthropy is San Francisco-based *Kiva.org*, the brain-child of husband and wife team Matt and Jessica Flannery. Jessica was working with microfinance organizations in Africa, which

loan small amounts of money to entrepreneurs in third-world countries. Matt had extensive technical skills.

Rather than attempt to raise money to fund a traditional microfinance institution of their own, they built a website to connect individuals in the United States who were willing to make loans to entrepreneurs in other countries.

Lenders select a business to sponsor using Kiva’s website, then offer a six- to 12-month loan. Lenders receive periodic journal updates from the entrepreneurs and, at the end of the loan period, are repaid in full. To maximize Kiva’s impact on emerging businesses, the firm leverages in-country microfinance lending agencies to identify qualified entrepreneurs throughout the developing world.

“We generate all the advantages of a traditional microfinance structure, plus we provide a unique, one-to-one connection between people with very disparate backgrounds and experiences,” says Premal Shah, president of Kiva. “Plus it scales at Internet speed.”

Kiva has grown in just one year to be one of the largest microfinance organizations in the country, lending over \$2 million per month. Its model is sustainable – Kiva is operating at break-even.

Both PayPal and Google are working with Kiva to help reduce its operating costs as well as promote the company. Kiva has also been featured on “The Oprah Winfrey Show” and in Bill Clinton’s latest book on social giving.

The venture capital-entrepreneurial complex is doing something vastly different than the military-industrial complex-innovating not just in business, but also in philanthropy. Already, firms are developing new ways of extending their reach through leverage, using VC capital acquisition models and the Internet. The future of Philanthropy 2.0 is as big, and as varied, as Web 2.0.

---

*Sean Foote is a Partner with Labrador Ventures in Palo Alto, CA. He is active on the board of directors of Altierre Corp., Eoplex Technologies, Everyone.net, Integrated Materials Inc. and Solaicx. He may be reached at at [sfoote@labrador.com](mailto:sfoote@labrador.com)*