Grantmakers in the Arts
Proceedings from the
1999 Conference

Strengthening the Arts
Through Policy, Performance and Practice

November 14-17, 1999   San Francisco

What's Next: Going Off-Road with the Arts as Venture Philanthropy

The explosion of individual wealth in America has given rise to a new breed of venture philanthropists and social entrepreneurs working outside the traditional boundaries of organized philanthropy. A panel of funders and practitioners engaged in this promising new arena discussed whether high-risk, high reward business investment models can be applied to the non-profit arts – including a candid assessment of what works, and what stands in the way.

Moderator: Cora Mirikitani,
The James Irvine Foundation

Panelists: Rachel Newton Bellow,
Project 180
Sally Fifer,
Bay Area Video Coalition
Peter Hero,
Community Foundation of Silicon Valley
Caroline Williams,
Grey Seal Capital, LLC

November 17, 1999, 10:00 a.m.

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In 1999 Grantmakers in the Arts celebrated its fifteenth anniversary and, as organizations periodically do, we took this opportunity to stand back, take stock of our work as grantmakers, and look to the future. As part of this process, we surveyed our membership and also asked a number of you to tell us what you were working on, how you were doing, and what was keeping you awake at night.

In fact, we found very few surprises. You talked about the need to sustain arts organizations and leaders, increase public participation, and support individual artists and their work. You also talked about your desire for more informed arts policy, better evaluation, and new linkages to the for-profit sector. These ideas formed the content of the 1999 conference.

But the spirit of the conference came from another place, another vision, that is equally a part of the essential GIA. John Gardner, the founder of Independent Sector, gave a speech in Oakland in 1998, in which he spoke of the immense promise and possibility of the work of philanthropy and the nonprofit sector. He said of our work:

> *We are allowed to pursue truth, even if we are going in the wrong direction – allowed to experiment even if we're bound to fail, to map unknown territory even if we get lost. We are committed to alleviate misery and redress grievances, to give reign to the mind's curiosity and the soul's longing, to seek beauty where we can and defend truth where we must, to honor the worthy and smite the rascals with everyone free to define worthiness and rascality, to find cures and to console the incurable, to deal with the ancient impulse to hate and fear the tribe in the next valley, to prepare for tomorrow's crisis and preserve yesterday's wisdom, and to pursue the questions that others won't because they are too busy or too lazy or fearful or jaded. It is a sector for seed planting and path finding, for lost causes and causes that yet may win. This is the vision.*

Although he wasn't speaking of our work specifically, I have not encountered a more eloquent expression of what it means to be a grantmaker in the arts. The 1999 conference began with its content firmly in hand and with this vision offered as a guide. Hopefully along the way, we explored each other's best funding efforts, shared lessons from our failures, and drew courage from our commitment to artists, art forms, and community.

Cora Mirikitani
1999 GIA Conference Chair

Mirikitani: *Good morning to all of you, all of the survivors of the 15th Annual GIA Conference. I'm pleased to act as your bookend for the conference, first welcoming you and now bidding you farewell with this session titled "What's Next: Going Off-Road with the Arts as Venture Philanthropy."*

Over the course of this conference we've been able to bear down on many issues of practice and performance in the work that we do. Much has already been alluded to and spoken specifically about some of the so-called intersections between the not-for-profit and the for-profit sectors.

As a starting point for this session, I'd like to suggest that the interest in this thing that we're calling venture philanthropy is based on three things.

First, there's been an enormous increase in the number of high net worth individuals who are beginning to engage in philanthropic activity.

Second, much of this new philanthropy borrows heavily on market-based terminology and perspectives that seem very different from that used in traditional organized philanthropy, which many of us use.

And finally, the buzz is everywhere. There's a growing interest among nonprofit organizations, foundations, and givers-to-be, to better understand what this venture idea, this social entrepreneurship idea, this "new philanthropy" idea is all about and to access its resources. We're interested in advancing the work and investments that are at the core of our own business.

Now, that may be the last thing we can all agree upon. As you begin to press what we mean by the terms venture philanthropy, social entrepreneurship, even the expression "working in the intersection between the profit and not-for-profit sectors," the discussion gets contentious right away.

In part, we struggle over the question of mission. Where in the commercial and the not-for-profit sectors can we agree on why we're doing this, on what's important about making investments?

Secondly, we disagree about the use and definition of business terminology. It's been very ingenious and good that we've been able to go across the lines with our vocabulary, yet the minute that we do it, a different meaning is conferred leading to misunderstanding at best and disagreement at worst about what we mean when we talk about this hybrid line of work.

Finally, I'm not so sure we're all on the same page when we talk about appropriate outcomes of these financial techniques and tools, and appropriate returns on investment when you're doing philanthropic work based on venture or market-based ideals.

So how do we make sense of this territory? And where do we go from here? How do we begin this? In crafting this session, our thought was to take a straightforward approach and start with the voice of four speakers who are very diverse. Until today, they had not met each other. They are practitioners who are very experienced in their respective fields with broad, even global views about what this idea of venture philanthropy and all of its variations might mean.

Before I introduce them, I should say that the panelists have all accepted a very difficult assignment. They will each describe one perspective on this complicated discussion: the not-for-profit organization side, nonprofit capital markets and formation, the limitations in organized philanthropy, and the use of philanthropic resources. Finally, they'll offer some reflection on what we're referring to as new wealth or new philanthropy.

I won't go into great detail in introducing all the speakers because their bios are included in your conference packets. But to associate names and faces:

Caroline Williams is president of Grey Seal Capital, LLC, and represents a voice from the commercial investment banking side. She has also done work in the not-for-profit side, so has walked both sides of this issue.

Next to her is Sally Fifer, executive director of the Bay Area Video Coalition. As a not-for-profit organizational head, she represents someone who in her everyday work lives in the intersection between the not-for-profit and for-profit sectors because she deals extensively in media and new technology.

Next to her is Peter Hero, president of Community Foundation Silicon Valley. If you've been reading almost any magazine or newspaper recently, you'll know that Peter is at the epicenter, or certainly referenced a lot, as an authority on the new entrepreneurial promise and wealth in Silicon Valley.

Finally, to the far right, Rachel Newton Bellow, whom many of you may remember in her most recent hat at the Mellon Foundation as program director. Currently she is president of her own hothouse, not-for-profit company, Project 180, headquartered in New York.

Let me give you a preview of the session format. We've agreed to allow each panelist to spend seven to ten minutes on their own perspective. Then we are going to allow them to have some discussion together, to blur the lines between them.

But following that, I'd like to encourage you participate. I know it's difficult to have an intimate discussion with your 150 closest friends, but we've been hanging around together for the last several days so I'm hoping that we can at least give it a try.

Just to clarify what I've encouraged the panelists to speak to, for nonprofit organizations, I'll start with Sally, and ask: What are the impediments to advancing new ideas and high-risk, high-reward ventures when she has to deal with foundations?

Then we'll turn to Caroline Williams with questions such as: What kind of financing structures and techniques are available in this hybrid profit/not-for-profit capital market? And what are some of the underlying issues and impediments in capital formation?

I've given Rachel a tough assignment because I'm asking her to speak in our voice, since she was in philanthropy for many years and now may consider herself a recovering philanthropist. Anyone who has investigated or engaged in this new line work realizes that limitations are embedded in the institutions within which we work, and in their style of giving. Sometimes, this idea of going off-road is more easily said than done.

Finally, I'll call on Peter to discuss the notion of new venture philanthropy, focusing on the characteristics of new, high net worth individuals, particularly in his own backyard in Silicon Valley. His foundation has profiled these individuals, which may give us some clues as to what is possible in the future.

My last word to prepare and set the context for this discussion is to propose three ground rules.

First, as moderator, I will try to keep us more or less on time and on task. Although, I may also step outside of that formal role from time to time, to participate as respondent.

Secondly, I urge all of you to participate in this discussion. We have two microphones set up in the middle of the room. Think about questions that would be useful to you, because, frankly, if this session isn't useful to you, it's really not useful at all.

Realizing that this is fairly new territory, my third ground rule is that I hereby declare this to be a "no-fault-zone" for thinking, a first discussion, not the definitive discussion about this topic. We're all beginners here and we should use this to launch a series of broader and deeper discussion, research, dialogue, and experimentation in this hybrid field of endeavor.

So now I'd like to call on Sally: Why is it so difficult for artists and arts organizations to secure philanthropic funding for truly innovative, high-risk ventures?

Fifer: Okay, sure. Cora asked me to talk about the challenges of working so close to the market – a very fast marketplace, the technology industry – as a nonprofit executive director. Before I respond, it might help if I give you the one-minute elevator speak on what BAVC (Bay Area Video Coalition) does.

We were founded 24 years ago, actually, with seed money from the Rockefeller Foundation to provide broadcast-quality equipment to PBS producers making public television programs. Today that means, at the high end, a digital component online suite, which would cost you about 500 bucks if you were to go to the commercial sector. You can come to BAVC and be charged about $90 an hour.

It's a capital-intensive endeavor at BAVC. We have a slate of post-production gear that is state-of-the-art and commercial grade. Out of that comes programs like the *Digital Divide* by David Boet, which you'll see nationally broadcast in January. And programs like Barbara Sonnenberg's piece, *Regret to Inform*, a documentary that won the Oscar nomination this last year.

The other thing we do is training; 600 workshops a year. We also are kind of a research and development arm for the nonprofit sector. We work with industry on questions like preservation and we work with archives and conservators to solve their technical problems. We do all of this for a $2.5 million operating budget. We have about 40 employees and we earn about 60 percent of our income.

My main point is that we don't have the shards and throwaways of the commercial sector. We actually have commercial parity.

I must confess, I felt a little bit nervous coming to you and talking about these challenges, largely because we have, and have had to have, an unflinching attitude about the problems of working so close to the marketplace. I didn't want to have the conversation with you about not having enough operating funds. I'm tired of that harangue; I live and breathe it every day! And, actually, I think it's the tip of the iceberg. The problem really is not an income expense statement problem, it's a balance statement problem. We lack the capital.

So before I go further, I want to separate the performance of BAVC in the marketplace from my own work to make that happen. The performance side of BAVC is actually really high. We have excellent programs and in some places, we actually win in the marketplace against our profit competitors.

As an executive director, I want to confess that I often feel like an Eastern bloc country. In fact, I've got the orthopedic shoes, the boxy coat, the bad hair cut, and my job…actually, maybe that's cutting it a little too close to the metaphor. But my job every day is to hop into a Trabant, which is one of those little tin-cup Eastern European cars that actually have lawn mower motors, and get on the Autobahn every day. I can go about 45 miles an hour, and beside me, whipping past, are these Mercedes at 130 miles an hour. Just the mere wind is brushing me to the side! But I've got to stay on the Autobahn.

The metaphor of the Autobahn is actually the marketplace. The destination is our broadcast audiences – people who watch programming produced at BAVC, programming about education, culture, arts, all the things that are important to us. My job is to get the Mercedes motor and stick it in my Trabant so we can go a little faster.

So before I get specific and run down a list of the impediments that Cora asked me to talk about, I want to make two observations from the vantage point of being pretty low to the ground, of being in that Trabant.

One is that it's really easy for nonprofits to get confused when they're working in the marketplace. It's confusing because the reigning ideology out there right now, because the economy is so good and so wealthy, is that the marketplace can solve everything. And it doesn't.

Our job in the nonprofit sector is to correct market failure and we really need to be clear about that. It is confusing, but there's more market failure today than there ever was. It's rampant, in fact. The income scales between low- and middle-income workers are widening. Twenty-five percent of our kids are in poverty. In the arts we know that supply and demand would never bring us the current exhibition on the fourth floor of the Museum of Modern Art, called "Seeing Time," with video art. That art was created through alternative arts spaces in the '70s, which were supported by the CETA programs. The artists were working outside the marketplace. We wouldn't have that work today and yet it may be the most important critical commentary we have about the technology we're living in. Certainly, Barbara Sonnenberg's documentary would not have been created, a piece about Vietnam War widows that makes you never want to have war again. This is not a supply-and-demand product.

The second observation I have about working in the marketplace is that, as a nonprofit, we're pretty darned young. In fact, I think, we're teenagers. And we don't exactly have all the tools to compete. Because government has pulled out, because it went for the reigning ideology that the marketplace was going to solve these problems, we're being buffeted as we work in the marketplace. We have some refining to do and some growing up to do to make it work right.

It's our job because we have huge challenges to take on in the 21st Century, and we need to take out the rough edges of being young. We've got to keep our values and our ideology, but we need to smooth things out.

So I'm just going to run through a list of refinements as I see it. And I'm going to do it quickly because you'll recognize them the minute I say them.

There are legal, economic, and cultural constraints. The one I referred to at the beginning was the lack-of-capital problem. Government collects taxes to do the kinds of jobs that nonprofits are expected to do. But we can't tax to get money, and we don't do a very good job because we can't access the kind of capital or venture capital that will allow us to replicate when we have successful programs.

We have prohibitions against advocacy with government. We have no room to fail. We're discouraged from experimenting. If you're in the profit sector, you get to experiment. In fact, it's a notch on your belt when you discover what didn't work the first time around and you get to move on to the second time around.

We lack familiarity and comfort with technology, and this is going to be a pressing problem. $300 billion in the year 2002 is what e-commerce will be, on the profit side of things. $1.3 trillion in business-to-business transactions. Where are nonprofits going to be in that marketplace? We face a constant brain-drain because we don't have parity of wage scales, and a lack of career growth opportunities. Everybody's talking about the fact that young people aren't coming into the not-for-profit sector to work.

The other thing we tend to do as nonprofits is proliferate. If we have a problem, we just create another nonprofit. We hardly have any mergers! So we can't get the economy of scale that we need to do a good job and gather the capital.

Among nonprofits there's a closed loop in the economy of ideas, so it's hard to innovate. And there's a culture around that. There's a critique of professionalism and therefore kind of competence, which is just crazy! Ideas are not often translated into marketplace products and we're not paid enough to give them away.

Nonprofits tend to be either very large or very small. In fact, in California, 75 percent of the nonprofits have budgets of less than 500,000 and are run on volunteers. Actually, it may be the mid-range for-profits that are the best agents for change in services, delivering goods services. As nonprofits we lack accountability in metrics, so we can't really make good, convincing arguments to get the capital we need.

The last one I want to talk about is what I call the myth of the stag hunt. We're told to be partners with each other because we're supposed to bring more meat to the table that way. But in fact, if we get together to go after that stag, it is actually smaller when we get it because we each get less money. So we're better off running after rabbits for our own organizations. And that's crazy!

I guess all these things sound kind of harsh and I didn't mean to do that. But my job was to tell you about the impediments, not the assets. If I were to tell you about the assets, I could do 20 pages of those, and at the top of the list would be human capital and social capital because we have that. And I'm enormously proud of the work that we do at BAVC and proud to be in the nonprofit sector.

But we need to step back from the tip of the iceberg to the glacier, and start to refine and fine-tune some of this from a structural point of view so we can make our sector sing! Thank you.

Mirikitani: I knew there was no one better to hold our feet to the fire. So thank you, Sally. I'm going to turn it over now to Caroline Williams who in many ways will speak to what Sally reflected as the number one pathology out there. Caroline?

Williams: On the first day of this conference Arch Gillies said these discussions tend to break down in terms of the market and the good guys. And in the interest of full disclosure, I'm here representing the financial market, but hopefully not too bad a person. I will try to bridge some of the language and perception.

I've spent twenty years on Wall Street and the last eight years trying to straddle the nonprofit and the for-profit sectors, and I find that I often get confused as to where I am in this world. But I've come to certain conclusions.

One is that it can be a very fuzzy line between nonprofit and for-profit and I'm not always sure where it is. The second conclusion is that the IRS considers it very real so unfortunately we do have to worry about it.

The third conclusion I always say is that the biggest difference is not between nonprofits and for-profits, but between big organizations and small organizations. In terms of access to capital, big organizations have a lot more options available to them. Most small organizations, whether for-profit or nonprofit, barely survive and they usually don't grow into large organizations.

And the last conclusion is, most ideas don't get funded. But I say all this with actual optimism not pessimism. In the for-profit sector we see enough good ideas and companies that it's worth sorting through the other 99 percent that aren't going to make it. I suspect the same may be true in your grantmaking. Even if you could fund everything, you probably don't want to.

One more conclusion I've come to is that the finance techniques for the for-profit sector have general applicability in the nonprofit sector – again, if you bear in mind the difference between big organizations and small organizations, and if you drop about three zeros when you talk about the size of the deal.

Now, let me do a quick survey of the major sources of capital and I'll start with the big ones and move down.

Though, I should first, I'm sorry, start with a very small one – and that's retained earnings, or accumulated surplus. This is an internal source of capital. It's very straightforward. It comes from the organization itself, whether nonprofit or for-profit. The problem, of course, is that it's actually very small in scale. I mention it though for two reasons. First, whether for-profit or a nonprofit, if you're trying to grow a new business idea, a new direction, internal accumulated surpluses aren't enough. You're going to have to tap outside capital, even if you're a big organization. And secondly, though, it's important because it's the most flexible source of capital you'll have. There aren't any repayment requirements and you're not worried about outside control.

Now let's look at external sources of capital, and from the top down.

The first are the debt markets. Nonprofit organizations do have access to the debt markets, and they can do it with tax exempt bonds so they get the advantage of saving interest costs. The highest grade triple tax-exempt bond issues right now are yielding about six percent. I'd keep that in mind because I'm going to talk about the cost of capital in each of these different alternatives. Dollar availability: there's a good market for new issues at $20 million and above. You can do them down to about 10 million. Below that, they're very hard to do, so it's not a realistic option. It's done mostly by schools, hospitals, museums, performing arts organizations, centers, large organizations – ones that have substantial size and financial strength.

So let's move the next step down and that would be bank debt. Bank debt's available for smaller organizations and in smaller amounts. The cost is usually based on prime rate plus a factor. Prime is now about 8.5 percent. This type of financing can be quite flexible but it requires an organization with a good operating history. Banks aren't in the business of lending to start-ups or for major new directions in an organization. Loans need to be supported by existing operations and assets.

You may be thinking this is all very nice for the large organization, but what about the small organization? What about new ideas? What about new directions? And, we hear about venture philanthropy and what about that? People have said during the course of the conference that they're not quite sure what venture philanthropy is, and I don't know what it is either. But it seems to me it's an approach to philanthropy; it's not an approach to financial markets. Having said that, I'm going to put it aside to talk about venture capital instead, what it is and how it might be used.

Let me start with the structural question of how you combine venture capital, which is very much for-profit, with a nonprofit organization. Venture capital equity means ownership. It means private benefit. That doesn't mesh directly with the nonprofit organization.

If a nonprofit organization has an idea that it thinks has great growth potential and it wants to access the venture capital markets, the first thing it has to do is build an organizational fence around the idea. It has got to separate the idea operationally and financially from the rest of the nonprofit. There may be ongoing relationships between the nonprofit and this new entity but they all need to be clearly documented on an arms-length basis.

Once separated, the operations supporting the idea are then transferred to a for-profit corporation that's initially a hundred percent owned by the nonprofit, which retains complete control over the new for-profit, its mission, and its operations. But when the for-profit goes out to equity investors to get capital, the nonprofit has to give up part of its ownership and therefore part of its control, and that's when the conversation usually comes to a halt. The nonprofit says, "Nope, don't want to give up control; mission might be jeopardized." That's a big problem.

But bear with me while I go through some of the characteristics of venture capital, and I'll try and bring this back to an idea about circumstances under which venture capital may work for you.

There are several categories of venture capital investors. Each of them has a different profile and I'll touch briefly on three of them.

The first are financial investors, who are predominantly venture capital funds. Their sources of money are usually institutional: endowments, pension funds, insurance companies. Their sole objective is earning a rate of return on the monies invested. They're usually managed by professionals and it's important to understand that their compensation is on an incentive basis based on the returns on investment. So they don't like to hear a lot about social benefit. They're focused on financial benefit.

Dollar availability: As venture capital funds have grown, so have their deal sizes. Some of them will still do investments as small as a million dollars. Most of them, though, are looking to put out five to ten million dollars at a time. So it's pretty sizable ideas that they're going after.

Venture capital is risky and therefore expensive. Investors in venture capital funds are looking for returns referred to as IRRs, internal rate of returns, of anywhere from 40 to 100 percent. That's to compensate them for the risk they're taking, for the lack of liquidity in the investment, and the fact that, as I said at the beginning, most deals don't work. So you target a higher return on some to offset the losses you're going to have on the others. And you say, well, why don't you just invest in the ones in the middle that you know are going to work? And it doesn't work that way. There are too many moving factors to really know up-front what's going to work.

So for the organization seeking venture capital money, this translates into two considerations. How quickly can this new organization grow? And then how much ownership do you have to give up to compensate the financial investor? The greater the growth prospects, the less ownership you have to give up.

If all goes according to the business plan, your financial investors will be happy just getting their regular reports and they'll continue to back the management team. But if things start to get off-track, they want to have the ability to take control if they need to, to protect their investment. If they lose faith in the management team, they'll want to replace management. If the business plan isn't working, they're going to want to change the business plan. And they're going to want to have a say over all major corporate actions.

So there are major control issues here. But I would remind you again, this is not the nonprofit we're talking about, these are operations that have been separated into a for-profit. The nonprofit is still here. The nonprofit still has complete control over its mission. Control issues only arise in the new for-profit where the nonprofit has now lost some of the control.

You're probably now saying, well, what about angel investors? We hear about angel investors, people who are attracted to the social benefit, as well as the financial benefit. You know, investors who get it, who aren't going to be as hard-nosed and greedy as the venture capital funds. Indeed, there are individuals who are drawn, socially responsible venture capital situations, as much by the social benefit as by the financial return. But you're talking about smaller dollar amounts and you're usually having to put together a group of investors in order to raise a million, maybe $2 million. The legal and practical implications are such that it's really hard to put together a group much larger than that. And the process is kind of like herding cats; they can be very difficult to deal with and it's hard to get them nailed down.

But the conventional wisdom is that individual investors will understand and value the social benefits. They won't be as greedy as the financial investors. If you can find the right group, this may be true. But they're still going to be looking for a rate of return that's probably at least 10 to 15 percent to compensate them for what equivalent long-term stock market returns would be.

Then I'll touch just briefly on a third type of venture capital investor, which is the business partner. People tend to forget that existing corporations are a major source of new capital for new ideas. The dollars can be substantial, though they're usually staged over time. The ballpark size of return they're looking for is probably more in the range of 15 to 25 percent, so this may be lower-cost money than from a pure financial investor. Remember though that they're business partners, not just financial partners, and they're going to be involved in the business from Day One.

Let me go back to a point I want to emphasize. The right investors, whether the business partner or the venture capital fund, will bring capital and management resources, and they can make things happen for you. Let me suggest that instead of looking at venture capital as a loss of ownership and control, you can look at venture capital as an opportunity: an opportunity to tap capital and management expertise for this idea that you're trying to develop, an opportunity to continue to sit at the table as an owner, as an owner to influence the direction of the venture, to keep your mission on the agenda, and to participate in the value created – both the financial value and the social value.

I'm going to switch gears now for one minute on one other source of capital that comes back more to the foundations, and that's program-related investments, PRIs. PRIs are a financing tool that foundations have, though one they don't use very extensively. The Tax Reform Act of 1969 recognized PRIs. One of the things the act did was impose on foundation boards a standard of "prudent man" or business judgment when they make investments with the endowment. However, the Act also recognized that there may be situations where a foundation wants to make an investment that furthers program objectives but that wouldn't meet the prudent investment standard.

The Act created a safe harbor for PRIs, for investments that meet three standards: charitable purpose, charitable effect, and profit not being the primary motive. Note here there's nothing in here about nonprofit/for-profit, and there's nothing in here about loan versus equity.

The Act went on to say that program-related investments would count against a foundation's five percent distribution requirement. Then when the monies are recouped, they would be considered a negative distribution. So the practical impact of this is once the money is moved from the investment fund into program for PRIs, it stays in program and recycles. PRIs have tended to be used as loans to nonprofit organizations and with below-market terms.

I'd like to suggest that you, as foundations, look at PRIs as creative tools. As a loan, a PRI can provide capital to situations – nonprofit or socially responsible venture capital situations – where only temporary capital is needed. As an equity investment in a socially responsible for-profit, it can provide market support and maybe even can replace the venture capital money, at least in the early stages to get the organization up and running with some track record.

Now, foundation lawyers in the room are probably clutching their chests having coronaries and saying, "It's not that easy." And it's not. I've just lived through one where we did a million dollar working capital loan from a foundation to a for-profit company and it took fifteen months. If this company could have gone to the bank, it would have in a minute considering the pain they went through. But it ended up with 3 percent money so it was great!

So let me say in summary that I believe all or most of the financing techniques in the for-profit sector are available directly or indirectly to nonprofit organizations, albeit on a very selective basis. Availability is mostly a function of the size and stability of the organization if you're talking about debt, or a function of growth prospects if you're talking about equity.

Venture capital is difficult for everyone. Most deals don't get funded. And of those that do, most don't work. But the PRIs are a unique financing tool and one that potentially has much broader application. The boundaries of PRIs have not been tested in terms of how you could use them other than below-market loans to nonprofits. The legislation doesn't prohibit other uses. The IRS might, but that hasn't been tested.

To go back to the original statement I'd say if you're talking about philanthropy and the market, I don't begin to suggest that we'll see a melding of the two. What I'm suggesting instead is that there are incremental ways to bring capital into the nonprofit sector and into the art sector, perhaps by taking a broader view of the sector without the legal distinction of nonprofit and for-profit.

I suggest that you make broader use of PRIs, which from the philanthropic side moves you in a little bit this way, and gives you dollars that recycle. And that you also look at participating in socially-responsible venture capital. You're not going to get venture capital to come all the way down here. But if you can get them over a little bit, if you can start to shape the agenda – and we've seen transformations in the environmental field and in energy with socially responsible investing and starting to pull capital down – then I think you can further the objectives of charitable purpose, charitable effect, and social benefit through venture capital an other collaborations between nonprofit and for-profit. Thank you.

Mirikitani: Thank you, Caroline. Your comments speak to our learning curve and what we need to begin grappling with in order to actually have a conversation about nonprofit capital markets.

All of this begs the question, for me: what about philanthropy? I mean, we're already set to go. We control our resources. We have strategies and plans. What is it about working philanthropy that either helps or inhibits funding innovation and new ideas? I'll turn it over to Rachel.

Bellow: Well, I cannot tell you how relieved I am to be in a room of people talking about philanthropy, the thing that I care most about, because I'm no longer in this part of philanthropy.

I was originally a user of philanthropy and then a dealer in philanthropy. And now, for the past three years, I have put together Project 180, which is a philanthropic think-tank and development lab. I've been looking for a third way. I've spent three years and anybody's money that I can get my hands on to discover what I don't know. And I'd like to share with you today a lot of what I don't know. It feels like a very long and expensive journey back to the beginning. And if that sounds Zen, it doesn't often feel Zen. It feels sometimes frustrating. Yet I think I have some intuitions to share with you today.

What new philanthropy means to me is what I want to tell you about, what I don't know. I don't know what venture philanthropy means. I thought I knew for about seven minutes and I went to every conference and every investor's circle and venture fairs and self-identified groups of social entrepreneurs and venture philanthropists. What I discovered was that the juxtaposition of those words was titillating and sort of felt as if you were dressing up in, you know, grown-up clothes. But it didn't yield fruit for me. It actually felt rather barren. I didn't really know why and I sort of put it aside.

I began to focus exclusively on the passage from nonprofit to for-profit in the second year of Project 180, which is not really where I started out. It was very interesting to me because there's such a dramatic canyon between those two cultures. So I planted myself right there in the Gaza Strip and learned a great deal about the capital aspects of it and all kinds of strategic, psychological, and intellectual lessons. What really interested me was that the passage reveals the deeper issues of what new philanthropy means to me. It wasn't the technicalities or the mechanics of the not-for-profit/for-profit connection that interested me, but rather what it revealed about the needs for new philanthropy.

For me, the passage from not-for-profit to for-profit is necessary because it promises a liberation of ideas and beauty and truth that is the province of the nonprofit sector. It's not the exclusive province of the nonprofit sector, but there's beauty and truth grown and protected in that soil that does not have the power and influence it needs to have in this society because we are poverty stricken, our imaginations are sick. We don't know how to imagine our own futures. The arts in particular – and the beauty and truth that's contained there and grown in protected soil – has a tremendous power. And it's not being released as long as it's exclusively contained within the nonprofit sector.

That's why the passage to the marketplace interests me, not because of the revenue potential which is great and also, you know, cool, and not because of the deal structures which are also cool and let you expand your network.

I can't really tell you what new philanthropy is, what this third way is, but I can tell you where I think it lives. I think it lives inside the relationship between the purveyor of the philanthropic idea, whether a nonprofit or a for-profit or an individual, and the capital source, which in this instance is you.

When you get inside that relationship, the first thing you discover is it's not about the money! It's about the meaning of the relationship. All kinds of things happen when you really begin to look at that relationship, which is what I mean by the third way. It's not the getter, it's not giver, it's the relationship.

What you learn about is power. You learn that in order to have more impact as a foundation you have to give up power. Giving up power is the only way to get honesty in that transaction. Let's face it. We all know that the plague of philanthropy is the lack of honesty in the transaction. You don't know what's going on in the transaction, and you don't know what goes on after the transaction. All you get are reports and flattery. The only way to get honesty is to correct the power inequities of the relationship.

So how do you do it? It's very, very complicated. But when you actually ask the question, that's when something new starts happening.

What you discover first is everything you don't know and everything that you can't control. You discover that what you do know is a very, very small part of the arc from an idea to its full manifestation. What you know and what you have to contribute from the foundation to that trajectory is a very, very small part and that's okay. That's fine. That's how it should be, as long as you know it. If you don't know it, the trouble really begins.

Once you know that you're a small part, all kinds of things can happen. First of all, you open your aperture and you say, oh, my God! They need all kinds of things I don't have, don't know about, and haven't really thought much about. What you begin to do is to describe to yourself where you fit in that trajectory. Where do I belong? What can I do? What are my limitations? What do I know within the full trajectory from an idea to its manifestation?

Then you ask yourself, who needs to be brought in? Who do I need to bring in to complete this arc? And you know what happens when you do that? Your networks explode! You begin to meet people you never knew. You begin to talk to sectors you never talked to. And your own creative capacities explode! You begin to have ideas because you're clear about what your limitations are, and you can only form a partnership when you know what your limitations are. You can't form a partnership when you think you know every single thing about a transaction before it begins, which is how most of us in the foundation community do our business.

When you start to broaden your networks and make partnerships and think about the whole arc of the philanthropic trajectory and where you fit in, you get new networks, new contacts, new creative potential. You have a real sense of your power. Don't you all have this weird feeling that I had when I was at a foundation of having a huge amount of power that wasn't real to me? It didn't feel as if I was really having any impact. I couldn't have had any more power in the situation – they were cowering in every meeting, telling me I was brilliant no matter what came out of my mouth – and yet it wasn't real. Well, that changes once you begin to play your appropriate role in the trajectory.

The main thing that happens is, you're not afraid to leave your jobs when the time comes for you to leave your jobs. And I'm not kidding. It's really terrifying to watch foundation people feel as if their muscles are atrophying over time, as if by the time it's time to leave, they'll not be good for anything. They feel they can't practice philanthropy, which they love, except here in this little professional cubicle. It's not true!

Philanthropy can be practiced here or here or here or here. As long as you know what you know, and as long as you're clear about what you don't know, and you're willing to be small again and not know everything.

Let me just conclude by saying that I believe the crucible of new philanthropy is in the relationship, in the transaction. I want to refer you to an article. I'd been thinking about all this then picked up the *Grantmakers in the Arts Newsletter*, which came right before the conference. I landed on an article that a year ago, certainly three years ago I would have just flipped right by when I saw the title, "Love and Money." I saw it this time and went, "Yes, oh, yes." The article is by Rob Lehman, who's the president of the Fetzer Institute. I want to read a sentence that I thought was so beautiful and so true and that underscores what I'm trying to talk about today.

He said, "Without this understanding," and he meant the understanding of the philanthropic relationship, "I'm persuaded that no matter how innovative our programs, no matter how much money is spent with the best of intentions, if the relationship through which the money is passed does not exist in wholeness and freedom, we will have exchanged nothing but our own ego-centered ambitions, our fears, and our illusions."

So wholeness and freedom. You know, you could have a conference on that! And I can tell you this, the whole time I was at Mellon, and before that, the whole time I was looking for money and raising money successfully, I never felt wholeness and freedom in that relationship – either side of it. And I think that's very significant.

Mirikitani: I have to thank Rachel for holding up the mirror so we can look at ourselves. And also for suggesting that we haven't begun to scratch the surface and we might begin by examining ourselves.

This gets us back where we started, with the simple observation that the promise and fascination of new wealth and what it can mean in its ability to respond to social needs is everywhere you go. Peter Hero has done a lot of exploration in this area and probably knows as much as anyone about the pathology of new wealth, at least as it's crammed in Silicon Valley.

Hero: Thank you. It's great to be here. I've long admired the work of Grantmakers in the Arts. My perspective from the Community Foundation is perhaps somewhat unique in the sense that the Foundation both gives grants – is a grantmaker, that gave away about $35 million last year – but is also a fundraiser, about $97 million came into the foundation. We're a nonprofit, but we frequently cross into the for-profit area. We recently created a consortium of banks called Lenders for Community Development that is for-profit housed in our office putting up loans for low-income housing and small business development.

And finally, while we're building a traditional endowment, as most foundations do, we're investing that endowment very differently, including investing in venture deals, if you will, and in other things that perhaps are more available to us in Silicon Valley.

The topic today is venture philanthropy and the best article I've seen about it, just to be the librarian of the day, is an article by Christine Letts in the *Harvard Business Review* in 1997 that sets out what is this whole business all about. Now, how it is implemented and how it has evolved is something else, but if you want to see what initially the thinking has been and Allen Grossman at Harvard and Greg Dees at Stanford Business Schools, have expanded on that. I believe that this style of giving is in fact characterizing much of the new wealth in Silicon Valley, as I'll explain in just a moment.

Our foundation works in Silicon Valley and we had heard for a long time about the cyber-stingy, the people who have $5 million homes and five garages with a Ferrari in every garage and so forth. But that wasn't the model that we were seeing, or the norm, necessarily.

So we set out to do some research in 1998, and the result is "Giving Back the Silicon Valley Way," and a companion piece on corporate community involvement, which was a survey of the hundred largest employers in Silicon Valley and their charitable practices. Both of those are available on our Web site, along with a lot of other things, which is siliconvalleygives.org.

I want to quickly go through some of the findings from that study, talk about the attitudes, motivations, behavior of some of this new high-tech wealth, how that relates to venture philanthropy. What I most want to do, is hear from you, because I have a very hard time figuring out exactly how all of these ideas fit well into the cultural sector, and that's what you know the most about. I'd really be interested in your observation.

A few findings. First of all, contrary to popular perception, Silicon Valley is actually remarkably generous. Eighty-three percent of the households give to charity versus 69 percent nationally. And among our high net worth households – and we did a special survey of those high net worth individual, the figure is 94 percent. We also volunteered about the same rate, which surprised me given all the time we spend on Highway 101.

Secondly, technology-based owners are much younger than the national norm. Ninety-one percent of our 35 to 44 year olds give to charity versus 65 percent nationally; 91, that's a big difference. In fact, giving in Silicon Valley peaks at about age 45 and drops off, versus about 65 to 70 nationally.

Mirikitani: There is no one over 45.

Hero: Third, our donors are remarkably independent, and this is really important. They take virtually no advice from their friends, their advisors, very little from their church. All of this data, by the way, is compared to the independent sector studies so you'll be able to see what happens in Silicon Valley versus nationally.

Where did they get their giving habits? They get them from the workplace. While I hesitate to say the workplace is the church of the 21st Century, it is true that almost the identical proportion of people name the church as an influence as name the workplace, in being a significant factor in their charitable choices.

One of the reasons is there's an enormous crisscrossing of networks in Silicon Valley, workplace-based networks. Fifty-two percent of our people in Silicon Valley belong to some workplace-related network or association; 52 percent versus only 16 percent nationally. It is those networks, mostly peer-based, that form the crucible of ideas about a lot of things, including charitable giving.

A fifth finding, we look globally when we seek charitable solutions. Forty percent of all the giving in Silicon Valley leaves the region entirely, goes somewhere else. I don't have figures in other parts of the country except Kansas City, where what I call this "leakage" factor is ten percent. So we have donors who look to far broader solutions, if you will, to the charitable issues that they're concerned about. Six in ten of the people living in Silicon Valley came there from somewhere else. We're a region of immigrants from around the country and around the world, which influences those patterns.

There's great uncertainty about which nonprofits are doing the best job. Fifty-six percent say they'd give more to charity, they'd give a great deal more to charity, if they knew nonprofit organizations were well managed. Well, no news to you, most of them are very well managed. Better managed than many of our businesses, but these people don't know that. This isn't Minneapolis or Cleveland or Boston where your parents served on a board and your grandparents served on a board. These people don't know the charitable sector. They don't know where to begin. They don't want to look stupid, and yet they bring that same intensity to the charitable giving as they do to their business lives.

And they're focused investors. They tend to invest in a handful of endeavors, to stick with them over some period of time, and to very carefully measure the results, the outcomes. They don't spread their money around to everything.

And finally, these are very "hands-on" investors and they use that word. These are their charitable investments and they want to see a return on their investments. Not to themselves, but to their community or something they care about. Very hands-on.

An example, one of our largest donors, Steve Kirsch, the founder of InfoSeek, has a $50 million fund with the Community Foundation. He's very interested in cancer research. But he doesn't simply give to the American Cancer Society. He used the Internet, and Stanford's oncology unit and others, to find out which doctors in what part of the country were doing what kind of research on what kind of cancers, and he's funding them directly. He's in touch with them, and he's involved. He typifies a lot of the young philanthropists in our region.

Taken together, these attitudes and behavior feed into this new notion called venture philanthropy, selecting a very small number, perhaps just one venture, and donating not just money but time, involvement, connections, resources, very hands-on. Staying involved over several years, building organizational capacity by finding a leader and backing him or her to the hilt, being a sustained funder, and sharing in the risk of that nonprofit organization. To agreed-upon specific outcomes, performance measures. If I fund this over some period of time, what's going to happen? What realistically can be expected to occur? Finally, at some point, to have an exit strategy to move on to something else.

These are the principles of venture capitalism, some of which you've heard about this morning. I can tell you, they're very different than what most donors and most foundations are doing.

Most donors fund short-term projects, often called models, that are supposed to be replicated somewhere else, but, of course, they never are because no one wants to take someone else's idea and say, look, I can do that, too – including funders by the way. Seldom do funders collaborate on specific performance measures and step back in to help if those measures are not met, saying how can we get around this obstacle? Of course, most donors seldom fund for more than one year. I saw a recent survey: of 35,000 grants awarded by private foundations, just 5.2 percent were for more than one year.

Paul Ylvisaker of Harvard, the late Paul Ylvisaker, once described philanthropy as America's passing gear. We've done a lot of freeway analogies today – the Autobahn – maybe venture philanthropy is giving us all-wheel drive. But it is turning on a lot of these new, young donors.

My foundation, in response to this, has done a couple of things. We've created a charitable network of young donors called SV2, which is Silicon Valley Social Venture Fund. We now have over a hundred mostly young entrepreneurs giving from $2500 to $25,000 a year into a charitable pool, and then participating in figuring out where to deploy those resources in the community, how to measure the results, how to get others in. So we're building on this idea of network.

There's a new foundation called the Entrepreneurs Foundation that's setting out to raise money from pre-IPO companies by soliciting pre-IPO stock, and putting it in the foundation, and then selling that stock after the company has gone public, in order to create a charitable fund. I sit on the board of that foundation; the fund raising is going very well.

But I have to say I think the jury is still out on the impact of venture philanthropy and is this simply the philanthropy *du jour*, is this some sort of newish funding that's popular now, or is it really going to stay? I wonder if some of these principles as they're applied, this sort of return investment mentality, can really be applied to many situations in the nonprofit sector, including the arts. Including education – there's another one. It can take decades to change. I wonder if this approach and the sort of impatience that goes with the intensity is a good mix with the nonprofit goals. I don't think we know yet. I don't think there's enough evidence. But I can tell you it's how these donors are behaving.

In fact, there's an article in today's *New York Times* about giving, and there's a special section about Silicon Valley. I refer you to it because some of the people they've interviewed there, I think, put a face on some of this behavior that I'm describing today.

By way of conclusion, just three quick final comments. What do we need to do or where do we go from here, off the road or on the road? It seems to me there are a couple of things that are needed.

One, I'm concerned about developing more philanthropic leaders. Only 14 percent of those interviewed in our research said it was even somewhat important to be a philanthropic leader, even though they thought that philanthropy was very important. There seems to be a lack of willingness to step forward and I think we need to change that. I think we need to develop and celebrate a new generation of donors and not simply look back to the icons of not only the Rockefellers and the Mellons, but the Packards and the Hewletts.

Secondly, we've got to do more to encourage this new, young wealth to give stock as opposed to simply taking a percentage of one's income. There is in America this thing about you don't go into capital, but that's where the money is. We've published a book on that subject that was written by Claude Rosenberg here in San Francisco, and if you'd like a copy, just get ahold of my office. It's only a couple of bucks.

We found, for example, that 33 percent of the high net worth people in Silicon Valley, received stock at work, and only 7 percent are giving stock, which is *crazy* from a tax standpoint, if nothing else. And we need to change that by helping people understand some very basic things like that.

By the way, I still have donors who call me and say, "Okay, I'm ready to go. I want to get involved now. How much should I give? How much should I send you?" And of course, I always want to say, well, send what you have and then we'll discuss how much you need. But I say that facetiously, but I think it's an indicator of this new wealth and uncertainty about what to do.

Finally, like it or not or encouraging it or not, looming up over us is this whole issue of giving on the Internet. I get at least a call a month from some start-up for-profit company that wants to start a service for donors on the Internet to facilitate giving. I don't know where it's all going to shake out. I'd be interested in your comments on our Web site, which is vastly developed over where it used to be. We find that 25 percent of the people living in Silicon Valley derive information to guide their giving from the Internet. That is fraught with all sorts of possibilities, and a lot of problems. But I think we, as grantmakers and helping those who are seeking funds, need to think about that.

Finally, I am enormously encouraged by the idealism and the interests of these young people who are starting Net companies and other young entrepreneurial ventures, many of them in their 20s and 30s. They want to give back. They want to get involved, despite the stereotypes to the contrary. I think that's very helpful.

Last year, eBay, the online auction service, gave us 100,000 shares of pre-IPO stock which was worth about $1.8 million and today, it's worth $40 million. Pierre Omidyar, the founder, is 34 years old, he's worth $4 billion, and he was in my office the other day and I said jokingly to him, I said, Pierre, that was such a generous thing to do. I said, what if I came to you today and asked you for that money? What if you hadn't done that? What if I came and asked you for $40 million? And he looked and he said, "You know, Peter, we're not making any money yet." He said, "I'd probably tell you we're a nonprofit, too." And yet he, personally, and that company, are enormously generous.

Well anyway, the time is very short. So that's been a brief overview. I see these new, young donors on the move; I think their vigor and creativity is heartening. I hope that some of these observations have been helpful to you.

Mirikitani: I'm going to break with my own session format rule and ask if there are any questions. I think that what's been presented is a very rich array and a fairly deep explanation of both perspectives and ideas, and I would like to see if there are any questions that any of you have for any of the panelists at this point.

Question: Sarah Solotaroff with the Chicago Community Trust. I have two questions, not related, for Rachel.

The kinds of relationships which you talk about are certainly ones that will expand this predicament between funders and grantees. But my concern is the time necessary to build those relationships. What you describe would allow us to work with perhaps five or six grantees per year, and most of us are in the range of 100 to 150 grantees per year. So how does one accomplish this kind of relationship-building given the press of people that we deal with?

The other question is that, from a foundation's point of view, it's fairly easy to identify the mover and shaker in the not-for-profit world who is going to take one of these adventurous ideas forward. What we foundered on, and what the leaders have foundered on, is their boards of directors. In the older organizations people can be very controlling of the organization and very tied to the old not-for-profit-model. I've seen more times than not, the executive director with a good idea, who is forced out of organization because the board can't be dragged along with the vision.

Bellow: The first question is a very good one. In my last year at Mellon, I went to my board and said, I'm going to take greater risks, place larger bets, spend more time, is that okay? And they were *amazingly* enthusiastic! It resonated with them immediately as making sense. How on earth can you do anything but put your check on the table and walk away when you're making 15 grants a quarter? It makes no sense. I was basically saying, in order to change this kind of relationship and get it right – and it may be a temporary situation every year – I have to do fewer grants. I *have* to do fewer grants!

And to explain that in a complex organism like philanthropy, a complex process, you need differentiation of parts. That means you have to go find the different parts. I don't know where your boards are, where you are in your power structure, but there really is no getting away from the fact that it's spending more time getting the model right, even if it's in one corner of your grantmaking. It's experimenting with the model rather than converting your entire portfolio to that.

As for the second question, I don't have an easy answer to that. I think that part of the challenge of new philanthropy is accepting the fact that you're not going to be able to work with the same kinds of organizations in the same ways. Not all organizations are appropriate targets for new philanthropy. You know, there is a lot out there that is absolutely perfect for the way we're practicing philanthropy now, and that shouldn't be tinkered with necessarily.

We really do need to understand better what current philanthropy does very well. There are all kinds of areas that it understands very well – fellowships, all kinds of areas you could go into.

In terms of how to solve the problem you identified with those organizations, again, there are people you can place around your grant. There are entities and experts you can place around your grant to leverage and protect your investment. That you can't do yourself. I don't know how best to manage a board given an investment I've put in, but I do know people who do know. I know there are people, and I can winnow through them, who can work with boards, work with leadership problems if that's what I identified. If I have the wherewithal on my side to bring those people in, and to provide the funds and have some say over who should be brought in; and to surround a grant with other players that have other kind of power in the situation, then I have a chance. But I can't control the whole picture.

Mirikitani: Other questions please.

Question: Judi Jennings, I'm from the Kentucky Foundation for Women. And I think it is very important not to demonize the market. I'm from Appalachia and I don't see how we can have a discussion about wholeness and freedom and new leaders without talking about structural inequality. When you're in a region with 40 percent real unemployment, you don't want to leave that region, you love that region, how is this going to help people that are in that blip of the economy?

Mirikitani: Carolyn, do want to take that?

Williams: This is the unfortunate reality of the inequality of large organizations and small organizations. As I said, most small organizations don't thrive. It's not a nonprofit/for-profit issue. In a lot of those situations, the PRI is not appropriate because there's not the ability of the organization to really generate the surplus to pay it back. I think you are looking back more at traditional philanthropy, which hasn't gotten to your issue at all, which is the structural inequality. Again, I would just say, that's not a nonprofit/for-profit issue; that's a large and small issue. And that's an issue that we hope philanthropy is addressing. But you're right, the market's not going to solve that.

Mirikitani: Peter?

Hero: Well, it occurs to me that while Silicon Valley is not Kentucky by any stretch of the imagination, it's also true that in Silicon Valley there are imbedded problems and social issues that we are dealing with, which are extraordinarily difficult to solve.

We have a remarkably diverse community with 54 different languages or dialects spoken in the school system. We're a region of immigrants. There are a lot of issues dealing not only with cultural but with social, environmental, and other kinds of issues.

But I frankly have found that there's a certain, not only intensity, but optimism to this approach that I described, among these new donors. We're working, for example, in Mayfair which is a neighborhood in eastside San Jose, which has very high crime rates, poor education performance, all the traditional indicators of blight and economic lack of opportunity. Fueled by a $5 million grant from the Hewlett Foundation, we are going to transform that neighborhood and we're going to expand that model to other parts of Silicon Valley.

I found that challenge and that kind of opportunity – it's the same thing in some ways – to be enormously attractive to these new donors. They didn't hesitate to step in, and didn't do so simply from an arrogant, why doesn't it work, why doesn't it run like a business, let's just fix it, but rather, what's the nature of the problem? What are the interconnected pieces? How can we bring the various players to the table to try to bring about change. But again, that's not Kentucky. I guess what I'm saying is though, those attitudes, there's no conflict necessarily with solving the problems you indicate.

Bellow: The Mellon Foundation, for its own reasons, historical reasons, has a program for Appalachian colleges, because it's interested in higher education. It knows that it's responsible for a lot of the Appalachian situation historically, so it does that.

So that's the conventional approach, right? Give the money. We know higher education, let's do it to Appalachian colleges. Over and out. Kind of unimpeachable.

Another way that you could do the same thing if you were not the Mellon Foundation, is to say, what we know and what we love is higher education. On the other hand, we're responsible, and we need to be active in Appalachia, so let's do what *we* can do and recognize that it's only a part, and let's take responsibility for bringing in others *around* this investment that we're making here and to see whether we can't create a team approach, recognizing the limits of our power to correct what happened here. Get different players from different angles there. You get so much more done than just a single grant over 20 years to Appalachian colleges.

Hero: Sort of leverage your investment with involvement by others.

Bellow: Yeah! Or recognizing the limits of yourself.

Hero: Right, good point.

Question: [Alberta Arthurs] I want to make a pick up on that last good question by saying that, one of the things that struck me at this meeting is that we probably all have the impetus to pay more attention to situations in rural America generally. We seem to not have gone off the road quite as much as we might have in that respect.

But I really got up to address Peter's question about how does culture fit into the kinds of things that he's thinking about in his imaginative way. I think Rachel has – especially in that last comment, Rachel – part of the answer. I think we have a lot to learn, as Caroline suggested, from the environmental movement and what it has managed to achieve in a whole new array of investments in the social issues and problems to which it's trying to find solutions. I think a lot of them range all the way across the geography and all the way across the social span in this country as well. So there's a lot to learn in that respect.

But there's most to learn, I think, from the ways in which they've generated infrastructures that didn't exist before, in order to get at the problems that they find and describe.

We just have to unscramble it and try and find those collaborative ways to make a march on this to try and see what the people in arts and culture are really doing to themselves. Make these investments that can then be leveraged up by funders and venture capitalists and angels and so forth and so on. We're just not thinking broadly enough, interestingly enough for culture as we have, I think, in other sectors. Even education is way ahead of us in doing this kind of regrouping and recreating in the middle.

Hero: Cora, may I just say one quick thing? There's a theme that all of our speakers touched on that's really important which is, there's an enormous shift going on in America right now. There's an incredible blurring of distinctions between profit and nonprofit, and we've been talking about it a little today. It's not that we can bring it about or can stop it, it is just happening. Last year Lockheed-Martin bid on taking over the Texas welfare system. They didn't get the contract but they almost did. Most of the prisons in California are being run by private businesses. We have nonprofits starting for-profit auxiliaries to pick up, in part, on government contracts that are available for for-profit entities. So there's this incredible blurring going on.

There's a man named William Ryan, who wrote a very interesting article in *The Harvard Business Review* that talked about this. And he said there's a social cost of doing more of our business through for-profits, and what are we gaining or losing by having this blurring? It was very perceptive and very profound, and I think it's something that we're all going to face as grantmakers in the years ahead.

Question: I'm Lisa Cremin with the Metropolitan Atlanta Arts Fund, which is a program of the Community Foundation for Greater Atlanta. My question is for you, Peter.

I'm interested in hearing a little bit about the characteristics of arts grantmaking, specifically amongst your high-tech donors. What percentage of their grant making is in the arts? What do you see that captures their imagination in the arts? What sort of patterns have you seen emerge in the short history of working with high-tech donors? Could you share a few innovative examples?

Hero: I can't give you any remarkable examples of employing these principles of venture philanthropy to the arts. I was hoping I would hear from you, "Yeah, that's what's happened to my symphony." "That's what's happened to my museum."

I think their giving so far has been pretty traditional in that area, with the exception that very often, they want to serve on the boards and get very personally involved, perhaps more so than some traditional donors might want to.

Secondly, they interestingly see no problem moving back and forth between science and art, the creativity being the connector. Teaching us to see the world in new ways, so they're funding science museums and science projects and science research, and the arts, and mentally are connecting because of this thread of creativity, which I think is very positive. I'm not sure what it is going to lead them to fund, but our museum of technology in Silicon Valley is probably a good example.

They tend to fund the arts they're interested in, their families are interested in. They get involved a little differently, but the way they choose them and what they give, I can't give you really anything new on that, I'm afraid.

Question: I'm Loren Renz from the Foundation Center, and since I heard something being said by Caroline about PRIs – we rarely hear about that in audiences like this – I wanted to say something about that and then also to ask Peter a question.

We do track PRIs at the Foundation Center as well as grants. I have been surprised, because I've done two studies on them and a third one that we're working on now, by the lack of growth in PRI funding at a time of such rapid growth of assets. We're tracking about $155 million a year spent in PRIs, and really that hasn't budged very much in the 1990s, a period when we would expect it to grow. Certainly Ford and McArthur had a very active program of trying to educate foundations about the use of PRIs for some time, and I think that's going on now locally.

But just to give you an idea, at the end of last year when I expected that there would be about 250 funders in the pool that we'd be looking at for this new study, we're not even finding 200 right now that we can really track PRI funding from.

Very little goes to the arts, but traditionally it's been in historic preservation and sometimes in acquisition of buildings. I wouldn't say there's much diversification in the types. There will be a new study out next year.

To Peter, I'm fascinated by the work that you've been doing locally, and I did want to ask you, because you made a couple of statements that actually tie into the data we see nationally.

You talk about funders being so targeted and looking at one area of venture capital in looking at their philanthropy. I wondered if you're also seeing, as we are nationally, that the fastest growing type of private foundation right now is an operating foundation, which is really operating its own programs and is not giving generously to nonprofits. It's not really interacting with nonprofits but having its own ideas about the work that it wants to do. And I think that you were saying somewhat the same thing about some of the donors who you were interviewing in Silicon Valley. Do you see that as a danger, this lack of understanding of the good work of nonprofits and not as much money from new philanthropy going into the existing nonprofits, but sort of figuring out an idea of their own and pursuing it on their own?

Hero: Well, I think there's a little bit of both. The Community Foundation is in the middle with our donor-advised funds and support organizations that are being created very rapidly. I don't think that what's happening is that someone is going off on their own idea. I think they're carrying out those ideas by funding nonprofits, but funding them in different ways, seeking out nonprofits that have good ideas for solving the problems that this donor may be concerned about.

The example I gave of Steve Kirsch funding the cancer doctor is, I think, more outside the norm, but it's usually done in combination with other kinds of grantmaking. He also gives a lot to local nonprofits and to other ventures by nonprofit entities. I think it's a combination and their thinking is not channeled by any particular models. If they're interested in that cancer and that doctor and so forth, they'll do that. On the other hand, they'll be very responsive when they go to the opera and get excited by what they saw and heard and start making grants to that nonprofit. So it's not really guided in any particular way.

I think the other thing is that there's also – I hate the term "thinking outside the box" – but some new thinking about ways to affect situations. For example, one of the young founders of eBay was a Peace Corps volunteer, who spent a lot of time in Central America and – coming back to the Kentucky example – has developed a Web site on eBay for these remote villages to sell their crafts over the Internet as an economic development tool. Again that is a more specialized interest, but this person's also funding dozens and dozens of nonprofits that are doing traditional things.

Question: Can I just say one thing real quick? I just want to remind everybody in the room that it is not the job of philanthropy to keep nonprofit organizations in business.

Hero: Right, exactly.

Question: And it's not the job of philanthropy to keep philanthropy, as we now know it, in business. You know, there are nonprofit ideas and causes and impulses, and there are philanthropic impulses. But the particular forms that we've developed over the last half century are not sacrosanct. And Alberta's mentioning of scrambling or reshuffling the deck, is really important here. We've got to know what to hold on to and what we can afford to let go of.

Hero: It may change over time. This is the other thing, this is an evolution, this philanthropy, this way of giving.

I was at a meeting the other day with Susan Packard Orr, David Packard's daughter, and she was taken aback by all this buzz about new philanthropy. She said at one point, "Father knew that people were hungry and the food bank was taking care of them so he gave money to the food bank." End of discussion.

So maybe the children of these philanthropists will behave differently. I don't think they'll be doing that necessarily, but what they're doing in 50 years may not be what their parents are doing today.

Mirikitani: You know, it's interesting from the point of the view of field, one of the questions was, why don't we innovate more? And I actually think we innovate a bunch.

Hero: I do, too.

Mirikitani: In fact, I think the way that it's structured, the way we give program grants one a year and don't go into multi-year funding, is a force which makes nonprofits innovate all the time.

The problem as I see it is not the lack of new ideas, really, or our ability to get new ideas out there. It is putting teeth into those ideas and being successful over the long run.

Why I'm interested in venture capital, is the idea of venture capital, because it believes in management and being close to the management. Having the relationship that Rachel was talking about, and a real buy-in because they want that program to be successful over the long haul for that return.

Bellow: I jump in on that on two points. It's management. It's the relationship. It's not necessarily the program idea. Now from a venture capital point of view, you've got to have a good idea but you've got to have really good management, and sometimes it's good experienced management who can make corrections in the course of the idea along the way that are more important than the idea. So the venture capitalist will back the management team, not necessarily the program.

Which also gets to the question of organization. One of the comments Sally made early on in the remarks was here's a new idea, we'll set up a new program or we'll set up a new nonprofit. You get this proliferation of small organizations that survive, but that's about it. And you don't have the market force, necessarily, though the funders could certainly exhort the market force. You may be three degrees off in your mission, but if you combine, there are some economies to scale. It doesn't solve everything but you can get some efficiencies just in your operating costs and maybe you're going to have to bend your mission just a little bit, but you can be a larger organization. You can survive and you can have more impact.

Question: Sarah Meyer with Microsoft Community Affairs. I sit in a petri dish similar to the one that Peter sits in in Silicon Valley. This is really an observation playing off of what a couple of other folks have said about the role of new philanthropy and culture in the arts. Microsoft employees are incredibly generous givers – we're anticipating that the company will match close to about $17 million in employee giving this year – but only 3 percent of that is going to arts and culture.

Similarly, when Social Venture Partners, which is one of the first models of this whole venture philanthropy base in Seattle, looked at the issues they wanted to address, the first two they came up with were youth and education. But interestingly, they are supporting arts education. They don't see it as arts. They see it as educational opportunities, but it just happens that the arts are providing the content that is grasping their imagination.

So when Alberta talks about redefining and trying to engage the arts in a way that sparks the imagination of these young givers, I don't think it's through some of the traditional ways.

Mirikitani: I guess the question would be, what is it that we can do to engage that arts relationship in the realm of activity that you're talking about? But let me take the second question.

Question: I'll try to be succinct. Clearly the people in Silicon Valley have made their money as it relates to new technology, Internet and so forth and so on. You segued into one way that they could do that, by one small example of having a craft Web site. But a deeper question for me is, would these folks either be sensitive to or have they envisioned ways to use this new powerful technology not only nationally but globally for a better world? Whether it's in the arts or any other purpose?

Mirikitani: Let me suggest that we start with the first question, because clearly there's not a connection here, I think, in this discussion, with most artists, most arts organizations. And I'd like each one to take a quick pass at some suggestion, some practical suggestion about what we might do to get that on the radar screen. Does anyone want to take a stab?

Bellow: I'll start by saying that what I generally do when I talk to artists, arts organizations, in trying to bring them to capital markets, is they want to go fast toward the capital because they believe in what they have, whether it's a product or an idea or a program, something like that. What I'm always doing is trying to draw them down deeper to the primary vocabulary of why they're doing what they're doing and what it really is about. Because if you can get the vocabulary more pure and less jargon-ridden and less specifically about art, and more to a kind of vocabulary, it's in them. It's in them, if you can find the under vocabulary about why this is important.

So in other words, instead of saying, it's about creativity, which is great, but under that is the imagination. That's a broader term. So you get the primary pallet of the touchstones before you go out, then they are connected to the deeper meaning of what they're doing. When they talk about it, they're not assuming a kind of interest in this layer of the vocabulary, which is after all, a rather narrow spectrum.

Hero: I couldn't add anything to that!

Mirikitani: Any other ideas on this idea of how you bridge that gap? It was actually referred to in Alberta's session yesterday on profit/not-for-profit as really a divide, and someone actually described it as a deep psychic divide. These are people who are committed. They're on our side.

Bellow: I'll bet you if you did a survey and got someone like Dan Yankelovich who really knows how to do deep sociological work and asked the question of why investment isn't going into the arts, I'll just bet that what would come out is 40 years of feeling excluded. A) it's an identification with a generation before them, where it was a tribal ritual to show up on opening night to the opera and they are not interested; and B) there's a sense that it's an exclusionary community with an exclusionary vocabulary and it's intimidation, it's all kinds of psychological issues.

It's like, look, secondary education is open. They want us. It's clear. I know what second graders need. When you get to the arts it's like, oh, you guys are specialists and you really know a lot and I don't want to touch it.

Hero: I think we all live with that. I think what's happening in Silicon Valley is there's developing a sense of cultural identity there that would have been laughable to talk about ten years ago. We'd get in our car and drive up to San Francisco, that's where the culture was. Now, suddenly, there's an emerging sense that there's a cultural identity in Silicon Valley, and I find that that's very persuasive as people begin to think about that. A dual-city concept is beginning to develop, like Dallas-Fort Worth, Washington-Baltimore or something.

But what characterizes that cultural identity and what are its pieces and why would people want to invest in it, is often a case that can be more persuasively made, particularly by the organizations that are there and are not simply trying to imitate organizations up the road, and for reasons that Rachel just said.

Bellow: I'd jump in here that there were some comments made yesterday that the arts are a lot broader than the performing arts center or the museum or the gallery. Arts are an integral part of lots of things, and that's a way to kind of change the discussion.

There was also discussion yesterday about partnerships. There they were talking about nonprofits and for-profits. But in terms of breaking down this tradition, this view of elitism, this view of culture as a place, as opposed to a process, it does come back to the suggestion yesterday that some of these programs need to be teamed with an education program, a social program for people to understand what you're talking about in perhaps a more creative way.

Also this idea of partnership, that we're trying to do a number of things and we're using things as tools to help each other. I'm not saying the arts are not valuable for themselves, I'm just trying to break down this image of arts as being elitist, and say, hey, no, it's really about everything.

Fifer: I had such a list of things that we needed to be successful as an arts organization. But actually, I think that the critical issue for us is to really understand that concept, about knowing where we are in the marketplace, that we're correcting market failure. Not that we're not going to use every strategy in the market. In fact, Barbara Sonnenberg's piece is making a lot of money right now. She's being very successful in the marketplace with that work.

Question: Let me ask you, this may sound like a tacky question, but you as a nonprofit, because of your way-below-market rates, helped create that opportunity she now has.

Fifer: Yes.

Question: It's doing very well, do you share in the benefit of that? Do you have a deal with her?

Fifer: I don't. And I should have a deal with her but, but, I have other strategies. [laughter]

Mirikitani: I want to say something about Sally's organization, having read the material.

Nowhere in that material do you self-identify as an arts organization, even though that's the heart of it. What's interesting is that foundations created this problem by discipline-basing everything, and saying, oh, no, you're an arts organization so you're in this program. So they go out into the world going, "I'm an arts organization. I'm an arts organization."

It's not a natural way of categorizing oneself. And there's no need to say, "I'm an arts organization. This is an arts project." You just talk about the work in the most compelling way possible. And that's what really strikes me about BAVC. There's nowhere in there that you say, "arts!"

Fifer: But I'll tell you, we're successful because we are arts. I had a hard time convincing Rachel when I talked to her about the workforce development program that we're running, that in fact, the reason we're so successful placing almost 70 percent low-income folks into jobs that are $45,000 to $65,000 a year is because it comes from the fact that we're a creative arts production facility

Mirikitani: Let me make sure that we get to the question about the Internet. But let me also take one more question if you can try to keep it brief.

Question: Thank you. My question was to Peter, I think, but to anyone on the panel. A number of the people who are working with you, the grantors, sound to be in some senses very traditional in their philanthropic approach. They want to give.

And I wanted to ask you, if the gentleman that you had spoken about who was supporting specialized cancer research, would he get on the phone and speak to the scientists and the researcher and tell that person that he wanted him to pursue a certain kind of research?

Hero: No.

Question: Would he say or would it be implied or contracted that he would own the research? I'm raising this question for just your own opinions about this, whether it happens in fact, because it is happening in the arts.

Mirikitani: Are you referring to intellectual property specifically?

Question: Yes. There are venture philanthropists who are asking artists to produce certain kinds of art; they are creating exhibition venues for it; and they are owning it because they are funding the arts. I think there's some danger in this. It is a different kind of approach, a different kind of paradigm, and some of you may be open to this. But it can also potentially change art. There are artists who would resist this, but then there are many artists who would say, "Well, why not?" And I would like to hear your opinions about it both personally and from your experience.

Mirikitani: That's a very complicated good question, but can we give a telegraphic response because of time constraints?

Hero: In two sentences, no, that person that I described earlier would not tell that doctor what to research or how to go about it. It's not impossible that that donor either with his foundation or separately himself, might invest in a for-profit company that is marketing a cure for cancer.

Mirikitani: Anyone else have a quick response to the idea of capital monies bending art out of shape?

Bellow: You have to know what your asset is in order not to be bent. You have to be able to walk away from the table in order not to be bent.

Williams: It's a whole spectrum. I mean, there has always been art commissioned and purchased.

Mirikitani: Let's return to the use of the Internet because I was putting that off a bit because it's a whole other domain. I don't know if you, in the process, have had time to think about where that may fit in. I think you've said, Peter, correctly, it's hard to predict where that will all shake out. But what's your best prediction at this point? Anyone? What looks promising? Why is it interesting?

Fifer: I'd say from a general point of view, in a way that we don't know. From a business point of view, clearly the Internet is transforming everything. I think people think in terms of all these retail shopping sites. It's way out of control. A lot of those companies are going to fail. It's just proliferated but the real use of it is going to be in business-to-business in terms of how it's going to transform our economy.

What that says for philanthropy, I'm not sure. There's been a proliferation of these shop-to-give sites. You could get five cents from this when you buy your shirt at the Gap. Some will survive; a lot of them don't make sense.

There are information sites that are trying to get information on nonprofits up on the Internet, which will help this research. Maybe you get conduits that help simplify the giving process. After you've done your full research you can click on who you want to give to. Maybe there's a way of disseminating information. It gets back to this whole question about how do you do evaluations? How do you judge? It could create a marketplace.

But we've learned with the Internet, it's a marketplace that is full of garbage, and that's the problem. In most deals, it's going to shake out to a few gate keepers who are the dominant ones who people trust. It may turn out to be the same thing in philanthropy. There are some information sites, you know, you'll get a few ones that people trust and that's about it.

Bellow: I talk to, I'd say, at least once a week, either a start-up company, someone with start-up fever, or an investor who wants to do this, or a known site that wants to add philanthropy to it. What I've concluded is that there are two huge challenges, and it's not in the middle.

In the middle in terms of what happens when you get there, tons of ideas, lots of good stuff, not the problem. The problem is on the intake, what is the libido stream that's going to get traffic driven to a philanthropy site? It isn't philanthropy. You're not going to mount a philanthropy site and have millions of people going, "Yeah, I really wanted to know how to give away my money!" So that's one problem.

Almost nobody has the libido stream well identified. So you have to connect it to say, you know, mycfo.com or a site where lots of rich people are going for a different reason, and then they go, "Oh, right, I got this problem of giving away my money" or whatever it is. But I guess get clear about libido and it isn't philanthropy.

And the other problem is on the other end of the pipeline. You do get people wanting to come in and deal with their philanthropic issues. Nobody is thinking creatively, imaginatively, or even responsibly about who are you going to give to? How is it going to get to them? And what's it going to be used for? The stuff that we deal with every day! You can dump money from an airplane over a city and have pretty much the same results.

Hero: I think you're exactly right. I think the Internet's real value will be less in attracting people, just for the reasons that you've said, than it will be for nonprofits or community foundations, to better inform, engage, and involve their donors, who are already interested in giving their money away but need certain kinds of information.

Fifer: I was going to say for artists, I think, it's a window of opportunity right now that's a very democratic medium. And it's inexpensive enough with new digital cameras for them, and the gatekeepers haven't been established and the technology looks fuzzy enough that everybody looks the same and they actually have a shot at getting it.

Mirikitani: Let me take one final question.

Question: Thank you. My name is Liz Lerma, I work for the San Francisco Arts Commission. And this is maybe for everyone.

Can you just describe what kind of an organization would be right for venture capital for thinking about moving in this area and growing this for-profit arm to sustain themselves, beyond a well-managed organization?

Fifer: There was an example yesterday that doesn't quite fit, but Culture Finder was on the panel. Now, Gene came out of the nonprofit world. Culture Finder wasn't developed by a nonprofit, but he certainly was of the nonprofit world and he saw an opportunity and went out and did it separately. Now, it could conceivably have been done within a nonprofit. So that's an idea that really was generated out of the nonprofit world that found commercial money to do it. So that's one example of the type of thing that can make the transformation. And it's very much in the cultural sector.

[Unknown]: I would say an organization that really knows how to compete in the marketplace.

Hero: I think that's most critical.

Bellow: There's one classic example that is really a fit in terms of the content and the structure and its derivation out of the nonprofit sector.

At KCET Television in Los Angeles, the chair of the board, Leonard Strauss, was a toy manufacturer. He had the idea of getting public television stations that do children's programming to put their content into a national retail chain of stores called Stores of Knowledge. It was launched as a national chain with VC money. The idea is that the public television stations are the shareholders of the company.

The content in the stores, the products are all products straight from public television: software, toys, learning, books, everything, but all directly out of it. One hundred percent free marketing. There's no advertising or marketing budget because the public television stations are going, "go, go to this store." And they're doing it in their local community, which is why it was launched as a national retail chain and not just one store in LA or Boston. It was financed by Reardon's old VC firm in LA. It was instantly profitable. And it's going public very soon and then there will be presumably some kind of windfall for the public television stations.

The reason that idea attracts me is that all down the seam, it is nonprofit/for-profit. Everywhere you look, content, advertising, financial structure, everything about it. If you took the nonprofit thread out of that fabric, you'd have no fabric at all. So it interests me more than, for example, the Newman's Own model, where the salad dressing itself is indistinguishable on the marketplace. It's just a backend strategy that loops it back to the nonprofit sector, which is fine. But it's just not quite as interesting to me.

Hero: If I could just add one footnote, on a more local basis, as opposed to Rachel's example. Surely, the best of example of social entrepreneurship that's attracting millions of dollars of venture philanthropy dollars is the Manchester Craftsman's Guild in Pittsburgh and what Bill Strickland is doing. I know many of you already know him, he was just out here to speak. He's setting up a similar thing with Willie Brown, out in Bay View/Hunters Point. It's going to be remarkable.

[Unknown]: But did he get VC money? He didn't get VC money, did he?

Hero: He is out here, yeah, for this new thing in Bay View/Hunters Point.

[Unknown]: Wow, that's interesting.

Mirikitani: But it started on the ground floor as an philanthropic cause. I will speak for Sally since she can't promote another organization, to say that she represents a promising example, BAVC, of an organization that fits that profile.

We've actually come to the end of our two hours and a very long conference.

But let me at least pull this to ground by reasserting that this really serves as the first of many longer, many deeper and more continuing interesting discussions around the idea of venture and philanthropy.

I think GIA, if I can speak for discussions we've been having on the board, is interested in hearing back from you as to your level of interest in pursuing of these topics. We welcome your feedback and your suggestions.

But for now, if I can bring this to a close and thank the panel and also thank all of you for attending the conference. So long until Minneapolis and we'll see you next year.

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