The John & Mary R. Markle Foundation

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Philanthropy and Venture Capital

Lloyd N. Morrisett

In September of 1969 when I became President of the Markle Foundation, I began to hear questions from friends and acquaintances such as: "Okay, so you are a foundation president. What do you do, give away money?" Since I did not really believe that "giving away money" was what we were about, I struggled with my annoyance at the questions and even more at not having a ready answer.

My confusion came from trying to reconcile my early training and experience at Carnegie Corporation, a grant-making foundation which specialized in education and was philosophically informed by Adam Smith and classical liberal economic theory, with my last three years at Carnegie when I worked with Joan Cooney to create *Sesame Street* and the Children's Television Workshop (CTW),[1] and, finally, with the challenges of Markle's newly chosen program in communications and mass media (now communications and information technology). Markle's new world of communications and media had little in common with Carnegie's world of education. The operational problems of creating *Sesame Street* were very different from the activities of grant making.

The nagging question, "So what do you do . . . ," led to many frustrating conversations and blank looks until I hit upon a useful metaphor that silenced most questions. I said that we were most like a venture capital company, but that instead of financial profit we measured ourselves by "social benefit." It made no difference that I had little knowledge of "venture capital," and no way at all to measure "social benefit." The words worked, and my listeners were satisfied.

The years since 1969 have been a voyage of discovery to see if the metaphor, "venture capital for social benefit," really is the best description of what the Markle Foundation has been trying to do. If that description is apt, then what are the consequences for the Foundation and the people with whom we work? Where does the metaphor break down? What problems remain to be solved?

Lessons from Sesame Street

My first experience in the spirit of social venture capital began during my last three years at Carnegie and culminated soon after my arrival at the Markle Foundation, affecting my

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view of foundation work from that time on. Working to develop *Sesame Street* and CTW during those last years at Carnegie was fun and exhilarating—and eventually emotionally rewarding when we first saw the program broadcast on the Public Broadcasting System (PBS) in November 1969. It was also successful beyond our dreams.

PBS was very new, created as a result of the Public Broadcasting Act of 1967. The power of television was widely recognized, but its educational potential was largely ignored by most foundations which traditionally addressed K-12 education, higher education, or medicine. The Ford Foundation did work directly with television when it financed *Omnibus* on commercial television in the late 1950's, but that was the exception rather than the rule.

I was profoundly affected by the experience of creating and developing *Sesame Street* which was quite unlike most foundation work. It convinced me that a foundation could effectively work within television and, more broadly, the mass media. Fortunately, the Markle trustees were engaged in re-evaluating the Foundation's long-term program in medical education, and they were willing to take a risk on both me and the idea that the new focus of the Foundation should be communications and the mass media.

Foundations as Catalysts. An early lesson I drew from *Sesame Street* was that a foundation could nourish a new idea, provide the entrepreneurial energy and initial funding necessary to develop it, and help substantially in the creation of an organization that would make the idea a reality. Joan Cooney conducted the feasibility study for *Sesame Street* at Carnegie while on leave from Channel 13 and later joined the Carnegie staff to build the initial creative team and administrative staff behind the show; I worked on the framework for the research component and to obtain the funds to produce *Sesame Street*; and Carnegie helped organize the Children's Television Workshop as the production company for *Sesame Street*. Eventually, Carnegie provided the first million of what was to become an $8.5 million budget—the remaining funds coming from the federal government, the Ford Foundation, and other private foundations.

This was not an ordinary case of a foundation making a grant and stepping aside while the work was done. Rather, this was a case where a foundation provided the catalytic energy to create something that would almost certainly not have been developed in any other way. *Sesame Street* demonstrated that it was possible for a foundation to work proactively and in developmental partnerships while carrying out its mission. Twenty-eight years later, this lesson is clear to me, but it was only a germ of an idea in 1969.

Sustaining a Vision. My next lesson in social venture capital came very early in the life of the Children's Television Workshop. Soon after *Sesame Street* went on the air, we realized that the program was not only helping children prepare for school, it was popular. Our goal quickly progressed from creating *Sesame Street* and getting it on the air, to finding a way to sustain it over time, which proved to be an unexpectedly difficult process.

Foundations, which had provided half of *Sesame Street's* initial funds, most often think of themselves as providing "seed money" and rarely consider the job of sustaining a successful project as their responsibility. The federal government had provided the other half of our funds. Yet political support—federal, state, and local—is notoriously fickle, and we knew we could not permanently depend on the government. Public Broadcasting provided a fee in return for the right to broadcast the program. As long as the program was successful we believed that we could count on that support, but we saw a future in which we would need to generate a substantial part of ongoing production costs ourselves.

In our search for a sustainable income base, we embarked on a licensing program for books, toys, and records based on the popular television show. Today, the licensing program provides 36 percent of Children Television Workshop's annual income. We also believed we might capitalize on the success of *Sesame Street* by making investments in related ventures or engaging in income-generating activities. Yet unlike commercial companies, the Children's Television Workshop was a nonprofit institution with no access to capital markets and no corporate reserves of its own to draw upon for investments. The Ford Foundation came to CTW's assistance in 1973 with a grant of $5 million so that it could invest in activities that, potentially at least, might generate income.

This was an unprecedented leap of faith by McGeorge Bundy, Fred Friendly, and their colleagues at The Ford Foundation. They recognized that the responsibility of the foundation did not end with the provision of funds for the initial production, but extended to the health of the organization that was producing the show.

It was a leap of faith not easily made. There were those at Ford, as there would have been at any other major foundation, who argued that CTW had no investment expertise and no record of identifying or creating successful revenue-producing ventures. The Ford Foundation, on the other hand, had a talented investment staff that successfully managed a multibillion-dollar portfolio. People at Ford asked if it would not make more sense for the foundation to manage whatever money it would have granted to CTW and pass the yearly income to the Workshop.

Although I do not know what finally swayed the decision, I believe that Mac Bundy understood that if Ford managed the money, they would each year debate the wisdom of granting the income to CTW. I think that he also knew that giving CTW a chance to learn and make mistakes with its own money would also give it the best chance of success. I am glad that Mac Bundy's and Fred Friendly's confidence was justified. Ford's initial grant has been multiplied many times, and the compound rate of return compares very favorably with what Ford and other foundations have achieved with their own investments.[2]

Of course, many foundation-sponsored projects are finite—a specific piece of research or the completion of a book, for example. Because it is relatively easy to calculate the

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costs of programs with specified ending points, the foundation knows the extent of its financial liability. Other foundation-sponsored projects are quite different; they do not have easily defined life cycles and ending points. They might create an organization such as CTW or sponsor an innovation in education that is successful and should be continued.

When I was at Carnegie in the 1960's, we traditionally looked to the federal government as the source of sustaining funds for successful projects in education. After all, was not this exactly what government was supposed to do?

Foundations and Government

In *The Wealth of Nations*, Adam Smith identified three tasks for government: to protect society from external threats, to maintain internal security and justice, and to carry out activities for the public good, specifically those which "can never be for the interest of any individual or small number of individuals to erect and maintain because the profit could never repay the expenses to any individual or small number of individuals, though it may frequently do much more than repay it to a great society."[3]

In the 1950's and '60's it seemed natural to think that the federal government would assume a growing role in supporting the public good, but Vietnam and Watergate shattered the dreams of the Great Society. In 1996 national defense, international affairs, entitlements, and debt interest accounted for 95 percent of the federal budget—leaving 5 percent for all other programs.

In a recent paper, Daniel Bell observes that, "The basic social trend in the United States today, and indeed in almost all Western societies, is the reduction in the role of government."[4] He states his belief that governments are too small to deal with big problems such as the environment or mass migrations, and too big to deal with the small problems of individual daily life. Around the globe, as populations age, health care costs grow, health services address new diseases, and many retire at an ever younger age, the welfare state has grown too expensive to maintain. In opposition to Smith's classical liberal political theory, except in very rare instances, the government can no longer be the natural market for socially beneficial ideas generated by foundations.

In the absence of government as financier of last resort for successful foundation-generated projects, I argue that foundations must identify markets that may sustain their efforts. In our market-oriented economy, and indeed increasingly in the world, I believe that the concept of social venture capital is a useful guiding philosophy, and that the venture capital metaphor is instructive.

Social Venture Capital

Organized venture capital is a relatively new industry in the United States, having gotten its start after World War II.[5] Early practitioners included General Georges Doriot and his American Research & Development Corporation, Jock Whitney and the J. H. Whitney & Co., and Lawrence Rockefeller who made an initial investment in Eastern Air Lines. These early venture capitalists and their successors share a strategy: Provide early investments in companies you believe have promise, and plan for the long-term business success that will sustain the companies and increase their value.

Planning for long-term business success is another way of saying that these ventures must identify their markets and satisfy demand in them. Of course, products must be produced at a cost and sold at a price sufficient for the company to stay in business. Regardless of the product, however, knowing your market and learning how to reach it effectively most often distinguishes a successful business from a failure.

It becomes more difficult, however, to define relevant markets in the foundation world. Frequently, the market you wish to serve through a new social service, program in the arts, or educational project is unable to provide continuing financial support. If the recipients of services cannot pay for them, you must look for other sources of support. If the government can no longer be considered a key supplier of money, what are the other possibilities?

Seeking a Marketplace for Ideas

One possibility is to think of the foundation sector as a whole as the financial market for successful projects, but two factors ordinarily make other foundations a poor bet for sustaining support. As I noted, most foundations consider themselves in the seed capital business; except for a few very large foundations, they do not think of themselves as sources of sustaining support. The second obstacle is the "not discovered or invented here" syndrome: As in many other walks of life, foundations tend to disdain projects they have not initiated or been part of from the beginning.

While the "not discovered here" syndrome is also rampant in the commercial world, the potential for profit or increased market share will often dominate investment decisions and overcome this mindset. Without an equivalent dynamic in the foundation arena, however, this proprietary attitude blinds otherwise farsighted people to real opportunities. Whatever the reason, foundations do not form a ready market for projects started by other foundations.

Remaining resources to sustain programs are the nonprofit world apart from foundations, commercial companies, and the public. In the 1990's and for the foreseeable future, I believe that an entrepreneurial foundation must look to these markets, carefully assessing the project and its potential appeal. For example, education projects may be supported or purchased by schools, colleges, or consumers. Medical projects may be of interest to health organizations, hospitals, drug companies, and patients. In the Markle Foundation's fields of communications and information technology, successful projects may draw the attention of communications companies, publishers of software, and consumers.

Unfortunately, foundations often take a patrician attitude: If a project or product is really good, there should be little need to "sell" it. Although there may be a very few projects, such as *Sesame Street* in its first few seasons, that are successful despite a lack of marketing, these examples are rare. Today, 30 years after its inception, Children's Television Workshop finds it must market *Sesame Street* vigorously. Even though the show has always remained popular and thousands of studies worldwide attest to its educational effectiveness, the competition for the attention of children and families is growing ever more severe.

Regardless of the project or field, foundations must now consider not simply the beauty of an abstract idea or technical advance but also the market that may adopt that idea. The project must meet or inspire a real need or desire and also compete for attention in a world rife with rival appeals.

Can Social Investments Be Philanthropic?

Of course foundations give away money—or do they? Should they consider it their role to "give away money" or, rather, to make a *social investment*? I think this marks a fundamental distinction in the way a foundation can think about its work. What I am suggesting is not a matter of law or Internal Revenue Service (IRS) requirements for private foundations; rather, it is a matter of attitude.

If the idea is to give away money, a foundation will certainly try to choose worthy recipients; but once money is given away, the foundation may feel little responsibility for its use, except to rejoice when it is well used and regret when it is not. If, however, the foundation views its money as a social investment in ideas, people, projects, or organizations, then a continuing responsibility is implied. Afterall, no one wants to see their investments fail or decline in value—although lack of attention may bring about precisely that result. But how does one interpret continuing responsibility for social investments? Here again I find the venture capital model helpful.

A venture capitalist always takes a long-term view of his investment, although his participation may range from passive to active. With a passive investment, the venture capitalist expects to take a small role or no role at all in helping the company grow, but stands ready to intervene if emergencies arise. With an active investment, the venture capitalist takes an important role in working with the company, perhaps as a board member, attempting in every way possible to make the company a success and solve problems before they become emergencies.

I suggest that foundations can well think of their social investments as long-term commitments along the same passive to active continuum. Yet I acknowledge that it is in the area of active social investments that we at the Markle Foundation have confronted the greatest challenges.

Beyond Money

Just as active venture capitalists work in every way to ensure the long-term success of their investments, foundations with experience and competence in their field can readily "add value" to a project by providing money, offering expertise with internal or external resources, furnishing contacts, critiquing ideas, being a sounding board, and identifying talent. Many foundations do this well, even though they may not have thought of their work as part of a social investment process.

Foundations are not as successful, however, in dealing with the crucial issue of leadership. Recognizing that effective leadership is essential to the long-term success of any company, active venture capitalists on an ongoing basis evaluate the leaders of companies in which they have invested. If they conclude that the originator of an idea or the company founder is not the person to successfully take the company from conception through development to operation, they are likely to take an instrumental role in finding new leadership.

While common in developing companies, changing leaders is rarely an easy process. Although one individual may have the idea, create the company, raise the initial money, and form the board, quite different skills are needed to develop a business strategy and focus, increase business volume and market share, and run an operating company. An entrepreneur, who is almost always emotionally attached to his or her creation and role, can be devastated to discover that he or she cannot lead the company to commercial success. In commercial situations, however, the emotional devastation of changing leadership can be mitigated if the entrepreneur retains a significant share of the company's stock and knows that financial rewards will accompany corporate success.

Foundation-sponsored projects may also face a leadership dilemma. The idea generator may not be a good manager; the academic may not be operationally minded; what begins as a part-time activity may grow to demand full-time attention. In many cases, however, the emotional attachment of the initial leader to his or her creation may be just as strong as that of the commercial entrepreneur.

Unfortunately, foundations are hampered from acting effectively in these situations. Although a foundation may consider it has made a social investment, the people in the foundation also consider themselves philanthropists in the religious and charitable sense: They give money to help other people accomplish their work and may feel "not interfering" is integral to the philanthropic spirit. More likely to pride herself on being tenderhearted than tough-minded, the foundation officer may find it difficult to recommend a change in leadership. Since stock ownership is rare in foundation-sponsored projects, there is little to offer the deposed management for their emotional loss except for kind words about a job well done.

Foundations are inhibited by more objective concerns as well. When venture capitalists make a judgment about management, their primary focus is financial results, with additional attention paid to work habits, style, personal relations, and corporate culture. In the educational and nonprofit world, however, financial results are more difficult to assess and, in the case of many projects, hardly relevant. Without business success, or the lack thereof, as an objective guide to necessary action, foundations depend more on experience and judgment than the "numbers." Relying on more subjective factors again exposes the foundation officer to the tugs of sympathy and the generosity of the philanthropic impulse—which may conflict with the actions necessary to achieve the project's success.

Looking back over the past 25 years, I believe that several of our projects would have benefited from expeditious changes in management, perhaps, in some cases, to the benefit of the people involved. I regard these cases as failures on our part to act responsibly to protect not simply our investment but the integrity of the project and its ultimate social benefit. To be sure, there were always special circumstances that made decisions and action difficult, but I now believe that if a foundation wants to be successful in the social venture capital mode it must be prepared to act accordingly.

Financial Constraints

Undercapitalization is another potential pitfall for foundations that choose to make social investments. Like the dilemma of management change, it is not easy or simple to resolve. When venture capitalists invest in start-up or development-stage companies, they anticipate it may take more than their initial investment to carry the company to operational success. In the case of biotech companies, for example, the development stage may last a decade or more. Further rounds of investment may come from additional venture capital, strategic partners, or an initial public offering of stock.

A foundation is more constrained in financing projects, both by circumstance and by attitude. Foundation endowments must finance all foundation projects, meet ongoing liabilities, and maintain institutional and management structures, with no recourse to additional financing or capital markets. Even giant foundations such as Ford and the W.K. Kellogg Foundation with endowments in the billions of dollars have finite resources. In thinking about future financial responsibilities, a foundation must plan for emergencies and growth within its own budget, unless it has identified a market that will support further growth.

As a result, foundations often have a money-saving mentality. Since opportunities and needs always outpace resources, difficult priorities must be set. Frequently, foundations pare project budgets to the bone, reduce or eliminate overhead as extraneous, and overlook plans for promotion, dissemination, or marketing. Examples of these problems abound.

Consider television productions. Commercial broadcasters know they not only need a compelling production, they must invest in enough promotion and advertising to convince audiences to at least sample the production. To give a production a chance of success, the cost for advertising and promotion may equal the cost of production.

Within the Markle Foundation's communications and information technology program, we have regularly considered funding requests for television projects. The high cost of production alone tends to discourage us, and most other foundations, from tackling many television projects. If the foundation has stretched itself to fund the production, there will be little money remaining for marketing. Yet without an audience, a production becomes little more than a museum piece. If a foundation takes a long-term view of its investment, it cannot afford to start up production and then ignore distribution. Undercapitalization may doom even the most promising ideas.

Undercapitalization is another potential pitfall for foundations that choose to make social investments.

Television Audience Assessment (TAA) stands out in my mind as a project Markle almost certainly undercapitalized. The full story of the project was written in the Markle Foundation Annual Report of 1985/86–1986/87.[6] Briefly, it was an attempt to create a system of television ratings based on audience evaluations of program quality. If successful, it might have supplemented ratings based solely on the number of viewers and raised standards of quality in the television industry. Knowing that the project had to become a commercial enterprise if it was to be successful, we looked to a market of advertisers as its sustaining force.

The research behind the product was meticulous. The TAA system was piloted successfully in two major markets and used successfully by PBS. After providing $3.4 million for research and development and the pilot test, Markle concluded it was time for TAA to turn to the commercial sector for further financing. The management of TAA worked hard to line up six major advertising sponsors. It would have taken 10-12 advertisers, however, to provide the revenue to make the product truly competitive. As the time approached for putting the program in the field, no new advertising support emerged. Feeling that the project had failed its market test, we chose to phase out the organization. Looking back, I believe our decision was heavily influenced by the scope of our investment and what we perceived as budgetary constraints.

A good idea, even with outstanding development and execution, needs time to be recognized in the marketplace.

Under any circumstances, Television Audience Assessment might have failed. With the wisdom of hindsight, however, I believe we did not give it a fair chance. A good idea, even with outstanding development and execution, needs time to be recognized in the marketplace.

Many, perhaps most, commercial ventures are started with the knowledge that they will lose money in the first few years until they develop a market. To give TAA a fair chance, we should have continued our support for two years or more. The Foundation should have planned to provide approximately half the total expenses and supplement revenue from the initial six advertisers. Assuming some success, advertising revenue might have grown in the second year of operation and lowered the necessary subsidy. Our total investment might have risen to $5-6 million. While that would have been an extraordinarily large commitment, Markle would have avoided the sin of undercapitalization.

Mechanisms of Foundation Social Investment

Although not widely recognized, the work of foundations can be carried on in several ways. Foundations may make grants to public charities, make grants to commercial organizations, carry out their own operational charitable and educational activities, and make program-related investments. Each of these activities can be consistent with the spirit and philosophy of social venture capital, but program-related investments seem designed to foster this approach to philanthropy.

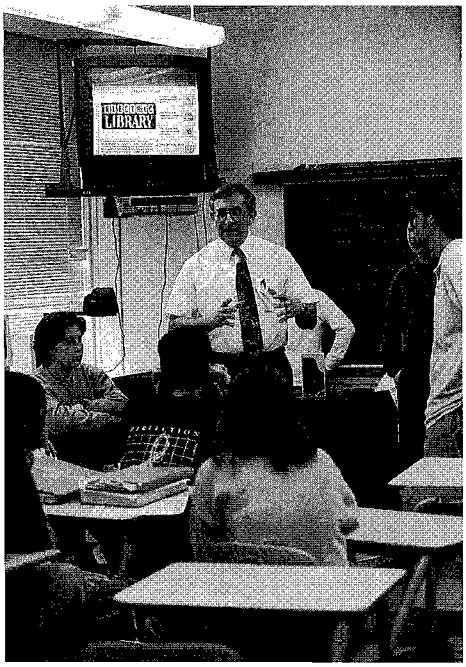
Grants to Public Charities. Making grants to public charities such as colleges and universities, is undoubtedly the most common and most familiar form of foundation activity. When a foundation makes a grant to a public charity that meets the standards governing 501(c)(3) organizations under federal and state law, the foundation has no continuing legal responsibility for the expenditure of the money. A foundation may impose its own additional requirements, but the legal responsibility for expending funds for the intended charitable and educational purposes becomes that of the recipient organization. In principle, this mode of action requires the least management or overhead but also offers the least opportunity for the foundation to add value to the project.

Grants to Commercial Organizations. A foundation may decide that a commercial organization is best suited to carry out specified charitable and educational activities. For example, in 1992 when Markle failed after months of discussion and negotiation to create a "Voter's Channel" within PBS,[7] we turned to Cable News Network (CNN) and made a $3.5 million grant for expanded election coverage. In the case of a grant to a commercial organization, the foundation must assume expenditure responsibility. This means that the foundation must set up procedures to assure that the money is spent for charitable and educational purposes and not for the benefit of the recipient commercial company. Necessary procedures might include segregating the funds in a separate bank account, establishing separate accounting for the funds, and scheduling an audit of the funds during the period of the activity and at the end of the grant. The requirements of expenditure responsibility may seem costly and onerous, but the extra work and expense may be justified if the commercial organization is best suited for the job or is more efficiently run than noncommercial alternatives.

Operating Grants. In the third case, the foundation may expend funds directly for charitable and educational purposes either by carrying out functions through its own staff or by hiring vendors or consultants. If, for example, a foundation decided to provide emergency health care in an area of urban poverty, it could hire the physicians and nurses to provide the care. "Operating" foundations do this all the time. They have concluded that they are best suited to carry out directly their charitable and educational tasks. Such a decision may be made because of special expertise within the foundation or simply because no alternative is easily available.

The Markle Foundation's experience and expertise in the highly specialized area of communications and information technology have led us to become a "hybrid" foundation that combines operating and grant-making activity. In recent years, we have been directly involved in the operations of about one-half of our projects. For example, we have been trying to meld educational and psychological research with entertainment forms in single player and multiplayer computer and online games. Few, if any, organizations have expertise in all of these fields, and, as a result, we have assumed the role of a producer cooperating with and coordinating researchers, computer game developers, and publishers.

Program-Related Investments. Although the philosophy of social venture capital can be consistent with any of the foundation actions



A Markle program-related investment in Infonautics Corporation supported Homework Helper, an online educational database offered on Prodigy that is now available over the World Wide Web as The Electric Library.

discussed, it is program-related investments (PRIs) that most obviously fit the venture capital metaphor. As with all forms of foundation activity, the program-related investment is governed by detailed IRS regulations that specify what foundations can do. Anyone who wishes to manage a foundation is advised to be fully informed about the IRS regulations and seek the advice of counsel before embarking on new forms of activity.

A PRI is a financial investment made in either a profit or nonprofit organization. To meet IRS requirements, a PRI must meet two essential tests in addition to not being for the purpose of influencing legislation or taking part in political campaigns on behalf of candidates: (1) Its primary purpose must be to accomplish one or more of the charitable and educational, therefore exempt, purposes of the foundation, and (2) the realization of profit cannot be a significant purpose of the investment. The first test, that of charitable and educational purpose, is generally the same thing as saying that the PRI must help carry out the foundation's program.

The second test, that profit is not a primary purpose, is usually evidenced by the inability of the investment to attract commercial sources of capital at the time of investment. If banks or experienced investors see opportunities for profit, commercial capital should be available and the foundation would be precluded from making a PRI. A PRI can be a loan, equity investment, or almost any recognized form of investment, and although profit cannot be the motive for a PRI, an eventual return of capital and appreciation to the foundation's endowment is legitimate.

The Markle Foundation has made several PRIs as both loans and equity investments. Our first PRI in 1989 was an equity investment in the Multimedia Corporation (MMC) in England. We believed that MMC could be a world leader in the production of educational interactive computer products, based on the very early work of the Interactive Television Unit of the BBC from which it was a spin-off. No commercial money was available, and the original financing came from the BBC and Markle. Now many years later, the Multimedia Corporation is a public company that has produced award-winning software used around the globe. As it happens, we sold our shares a few years ago at a value greater than our original investment.

This example illustrates how closely a PRI can come to parallel a venture capital investment. Markle believed the company could be an educational success *and* a viable financial enterprise. (Indeed, such a company must be successful financially if it is to fulfill its educational mission.) Yet traditional venture capital or commercial money was unavailable because of the perceived risk of the investment and an unproven market. You could say that the role of the foundation was that of "pre-venture capital."

Having made the investment, however, we were in exactly the same position as a venture capitalist who takes responsibility for the success of a company. To insure the success of our investment, we were committed to add value by providing counsel and guidance, making contacts, and consulting on hiring. I believe we have learned how to be useful in these areas, but in the early years it was more like the "blind leading the blind" as the Multimedia Corporation and Markle learned together what it takes to achieve success in the highly competitive and volatile world of multimedia production.

An Age-Old Spirit, Modern Times

If a foundation adopts the philosophy of social venture capital as Markle has done, there are important consequences for the structure, organization, and behavior of the foundation. As has been discussed, the concept of making investments rather than grants implies continuing responsibility and moves the foundation toward active involvement in its activities. While there may be various degrees of involvement, the foundation will be far more active than it would have as a grant maker at arms length.

An increased involvement with social investments requires the foundation to gain expertise in operations and management as well as in its program areas. In Markle's activities, we have consistently found that many organizations, both commercial and noncommercial, lack skills in strategic planning and business management. Many people and organizations often recognize they lack the necessary skills but do not know how, or lack the financial resources, to fill the gaps. Providing those skills through consultants or training can be one of the most beneficial ways to help insure successful outcomes.

Intensive involvement in projects places a heavy burden on the staff in terms of energy, time, and often travel. The foundation that adopts the social venture capital philosophy will almost certainly have a larger staff

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and higher overhead in comparison to its assets or distributions than a foundation that is more passive or is simply making grants. For example, depending on the size and development stage of companies, it is only possible for a commercial investor to manage five-to-ten projects per portfolio, and the same is true for the foundation officer who takes the role of active social investor and must also pursue ongoing education in the relevant field. An officer of a grant-making foundation who simply evaluated requests against stated criteria could easily dispense a hundred or more grants in a year.

The question is, of course, whether the increased management involvement and expense is justified by the results. I think that this is the crucial point for evaluating the social venture capital approach to philanthropy. Does the foundation add value beyond that of the financial resources that are provided? In principle, there are many stages in the initiation and development of a project when the foundation can add value. It can contribute to the formulation of the idea, help to create the structure, assist in identifying personnel, help to see that sound business and management practices are adopted, monitor performance against expectations and work to make adjustments in the plans when required, and help to promote and distribute the results of the project as appropriate.

To ask if the foundation adds value is necessary; to answer the question is difficult. There is usually no financial profit and loss statement to point to the answer, only subjective judgment. We have found in our work that one of the most difficult issues is deciding when evaluation should occur. At the end of funding, one year later, or perhaps after ten-to-twenty years when the project can be put in historical perspective? Many long-term projects go through cyclical peaks and valleys. Research projects may pay off many years after they have been completed. The timing of your evaluation matters.

Foundations face at least as many difficulties in market timing as start-up companies. Foundations often will try to foster a novel or controversial social innovation. Yet if it is too early, the innovation may not be accepted or find a source of sustaining funds. How long do you persevere before deciding that no market exists or that the idea was flawed? Television Audience Assessment, for example, may have been a good idea at the wrong time; almost certainly we did not persevere long enough.

Social benefit is not easy to measure. Although that criterion is elusive, it is what must ultimately justify all foundation work. Establishing clear objectives at the start of projects is enormously helpful in guiding decisions about operations and in evaluating outcomes. At the same time, flexibility is important. The environment in which you work, in which projects exist, is constantly changing. Sometimes original objectives need to be modified or changed to accommodate changes in the environment, unexpected opportunities, changes in personnel, or increased understanding of what is possible. The most successful foundations, like other successful organizations, have clear objectives but are also able to adapt.

In the early years of this century, Andrew Carnegie provided a guiding philosophy for philanthropy in his essay "Wealth": "Surplus wealth is a sacred trust which its possessor is bound to administer in his lifetime for the good of the community."[8] In our market-oriented economy, and with the declining role of government, the idea of "social venture capital" provides a framework for the age-old spirit of philanthropy in modern times.

1. Joan Cooney was president and CEO of the Children's Television Workshop from its founding in 1968 until 1990. She is now chairman of the executive committee. Lloyd Morrisett has been chairman of the board of trustees of the Children's Television Workshop since 1968.

2. In 1975 the operating capital of CTW, including the grant from Ford, was $3.1 million On June 30, 1997 it was $150 million, a compound return of 18.78 percent. During the same time period, the S&P 500 Stock Market Index with dividends reinvested compounded at the rate of 16.5 percent.

3. Daniel Bell, "The Redefinition of Government—and the Role of the Independent Sector" (address presented to the Nippon Foundation Forum Em Bridge seminar, Hakone, Japan, November 1996).

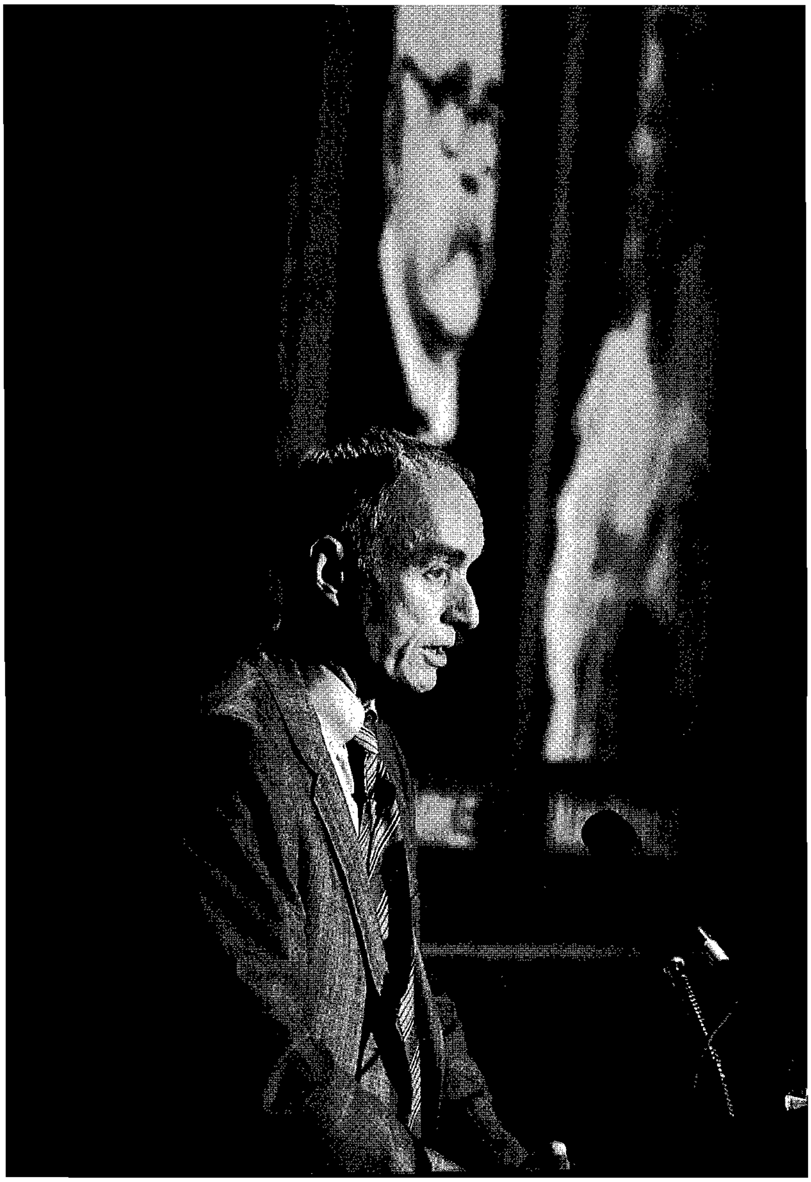
4. Ibid.

5. For information, see Steven P. Galante and David T. Gleba, "An Overview of the Venture Capital Industry & Emerging Changes," a report of the Venture Capital Institute available on its Web site: www.envista.com/vci. Steven P. Galante is editor and publisher of *The Private Equity Analyst* newsletter, Wellesley, Massachusetts.

6. Lloyd N. Morrisett, "Television Audience Assessment," *Markle Foundation Annual Report* 1985/86-1986/87.

7. For a discussion of this, see James Day, *The Vanishing Vision* (Berkeley: University of California Press, 1995), 1-5.

8. Andrew Carnegie, "Wealth," *North American Review* (June 1889).



Lloyd N. Morrisett addressing the Markle Foundation Annual Board Dinner, April 1997.