The Challenge of Change: Implementation of a Venture Philanthropy Strategy

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The Roberts Enterprise Development Fund and BTW Consultants—informing change

Introduction

The Roberts Enterprise Development Fund (REDF) is a venture philanthropy approach to supporting social purpose enterprise development. REDF maintains a portfolio of seven nonprofit organizations, which collectively operate 23 revenue-generating enterprises. The goal of social purpose enterprises is to provide transitional and permanent employment opportunities to those deemed "unemployable" by the mainstream labor market.

REDF is all about innovation and change:

- REDF funds new strategies for job creation and the development of community assets.

- REDF provides an array of ancillary support to nonprofit organizations through the innovative application of techniques borrowed from the for-profit, venture capital field.

- REDF assists nonprofits in being as effective in the pursuit of their business mission as they seek to be in their social mission.

- REDF seeks to overcome the limitations of traditional, classical approaches to philanthropy through the creation of a meaningful, significantly more engaged partnership between funder and investee.

However, change is challenging—even for those who seek it out and understand its value. This chapter presents a discussion of the challenges REDF experienced during the initial months of launching its initiative and the steps taken to date to respond to these challenges.

The following pages begin with a presentation of a basic framework for understanding organizational change. This is followed by a brief description of the transformation The Roberts Foundation has undergone over the past decade. During that period, the Foundation moved from implementation of a classical foundation strategy to the creation of the Homeless Economic Development Fund (1990), which then led to The Roberts Enterprise Development Fund (1997). Now REDF, in 1999 and beyond, pursues a continuation of its venture philanthropy strategy which has been greatly informed by the feedback received over the first 18 months of its operation.

After this background discussion, the document presents the findings of a process appraisal conducted in 1998 to assess how this transformation from classical to venture philanthropy was experienced by the Foundation and its investee[1] organizations. The process appraisal findings are followed by a discussion of the steps taken by Foundation staff to address the issues raised in the appraisal.

Presently the concept of venture philanthropy is receiving a great deal of attention. This interest in a new approach to funding has very real implications for the traditional relationship between grantee and grantor. Therefore, this chapter concludes with a discussion of lessons learned from The Roberts Foundation's experience that may be of interest to foundations and nonprofit organizations in the early stages of formation, as well as those considering a transformation of existing funding strategies and relationships.

Before presenting the outcomes from this process appraisal, it is first helpful to have some understanding of how change is experienced within organizations and what factors may influence the change process.

Navigating the Stages of Change: A Theoretical Framework

There are a variety of ways to understand, describe and analyze a process of organizational change, particularly as reflected in such a creative and complex collaboration as The Roberts Enterprise Development Fund (REDF). There are other frameworks that are more specific to nonprofit organizations, such as Drucker's seven stages of effective and sustainable innovation.[2] And there are frameworks that are psychologically based, such as Lewin's well known three-phase approach to change—unfreezing, changing and refreezing—or change cycles that reflect more of the emotional aspects of organizational change.[3]

We chose a framework presented by Michael Heifetz because it seemed the most relevant and useful model for understanding the stages of change experienced in The Roberts Foundation's initiatives, which in many ways are a hybrid of for-profit and nonprofit philosophies. Regardless of which theoretical framework one chooses, the most important point is that the REDF initiative, and The Roberts Foundation generally, engage in processes grounded in a commitment to ongoing organizational reflection and learning. REDF is creating innovative systems for supporting social purpose enterprise development, reflecting on those systems, refining its approach based on evidence gathered both informally and formally, and disseminating its learnings in order to inform a growing field of interest in venture philanthropic practice.

Peter Drucker has observed that in order to be a successful innovator it is first essential to learn from the process of change. This means having the courage to critically examine what needs to change and then managing that change in a manner that reflects where one wants to go. In commissioning its process appraisal, REDF took an essential and courageous step in asking questions of its nonprofit partners and itself as a foundation program initiative. As it has been said, "You cannot get to where you want to be by remaining where you are."

Michael Heifetz, a specialist in organizational development, has presented a seven-stage process for effectively creating change in organizations. His framework for change and the seven stages he enunciates are derived from extensive research and experience in analyzing organizational development in both business and government. Heifetz's seven stages include:

Stage One: Choosing the Target

Stage Two: Setting Goals

Stage Three: Initiating Action

Stage Four: Making Connections

Stage Five: Re-Balancing to Accommodate the Change

Stage Six: Consolidating the Learning

Stage Seven: Moving to the Next Cycle

Associated with each stage is a desired set of outcomes, actions initiated to accomplish those outcomes, and common issues or barriers to overcome. The Roberts Foundation experienced each of these seven stages of change during HEDF; when it reached Stage Seven—Moving to the Next Cycle—HEDF transitioned to REDF. In 1997, The Roberts Foundation chose its next target (Stage One)—REDF—by focusing on social purpose enterprise development specifically and by choosing to deliberately implement a venture philanthropy approach to its funding.

In establishing its investee portfolio, REDF set explicit goals for itself and worked with each group to set its own business-specific goals (Stage Two). During the first year of REDF implementation, action was initiated (Stage Three). This action reflected many of the major components of a venture capital practice—i.e., core financial investments were made in each organization, regular venture committee meetings were held, business assistance was provided, additional capital and business networking opportunities were made available, and a management information system was established.

The REDF process appraisal was undertaken during the fourth stage of Heifetz's seven-stage process, "Making Connections." According to Heifetz, the fourth stage is when "people wrestle with change as it plays out in their daily work." For the REDF portfolio this was the time when conflicts over control and direction emerged between organizations and The Roberts Foundation and within the organizations themselves. The terrain was shifting and the players were trying to establish firm footing to manage both their organizations and the new funding relationship.

Examples of actions that are typically part of the fourth stage of change include ensuring everyone understands how the new approach affects them and scrutinizing the results of the initial change process to determine if the benefits of the change are real. The REDF process appraisal, conducted 14 months into the REDF initiative, was such an action. It was intended to provide formal feedback to all REDF stakeholders regarding the effectiveness of a venture philanthropy approach and offer possible guidance to make refinements in any and all components of the initiative. The process appraisal was also intended to and, in fact, did lead to Heifetz's Stages Five and Six, "Re-Balancing to Accommodate Change" and "Consolidating the Learning," which are happening currently.

1990 through 1996: Evolving From a Classical to Venture Philanthropy Strategy

The Roberts Foundation was founded in 1986 as the family foundation of George and Leanne Roberts. Located in the San Francisco Bay Area, from 1986 to 1989 the Foundation funded a variety of youth, education, animal welfare and arts organizations through a classical approach which included:

- publication of an annual report with giving guidelines,
- submission of grant proposals by prospective grantees,
- review of those proposals by staff[4] and
- presentation of those proposals to The Foundation's board of directors in the form of "dockets" consisting of a summary of the proposal and recommended giving levels.

In 1989, the Roberts decided they were interested in funding a "strategic effort which would not normally receive support were it not without the assistance of The Roberts Foundation."[5] Furthermore, George Roberts began conversations with the Foundation's executive director regarding strategies by which The Foundation could identify and fund a "free enterprise approach to homelessness." To that end, a staff person was hired to investigate the potential of such an approach and create a strategy The Foundation could pursue.

In January of 1990, The Roberts Foundation launched the Homeless Economic Development Fund (HEDF).[6] The goal of the Fund was to support efforts to expand economic opportunity for homeless individuals through three strategies:

- expanding the accessibility of the mainstream job training and placement system;
- creating a self-employment program tailored to meeting the needs of homeless women; and
- assisting nonprofit organizations in the planning, launch and management of nonprofit, social purpose enterprises.

The HEDF's experience in the first two areas and the lessons learned regarding the third are described at length in other documents. The reader is encouraged to review that material for a full discussion of The Foundation's experience in social purpose enterprise development.[7] The focus of this paper, however, is less upon what was being funded between 1990 and 1998, and more upon how that funding was provided.

The following chart illustrates how The Foundation's approach to investing in nonprofit organizations evolved from a classical to a venture philanthropy strategy. Accordingly, the fundamental elements of the Foundation's work shifted over time in the following areas:

- Amount of Initiative Budget and Average Grant Size
- Type/Form of Investment
- Number of Investees Supported by the Foundation
- Number of Social Purpose Enterprises Operated by Investees
- Fundamentals of the Investment Relationship
- Target Population
- Range of Supports Provided to Investee Organizations
- Professional Development of HEDF/REDF staff
- Form of Primary Donor Involvement

The specifics of this shift are presented in the accompanying chart and other documents provide detailed information concerning The Foundation's strategy. By the end of 1996 it became clear that The Foundation's goals could be best achieved through shifting from its prior structure to a new, focused initiative that could take the lessons of the past and apply them to future efforts. To that end, at the close of 1996, HEDF was dissolved and The Roberts Enterprise Development Fund launched.

The reader should keep in mind that the following chart, while reflecting the general stages The Foundation moved through over time, should itself be viewed as an evolving continuum. Within each stage lessons were learned and internalized, while across the decade described, the process moved forward in a somewhat fluid motion not easily reflected in linear charts and diagrams.

Evolution of A Philanthropic Strategy

Category	1990-1993	1994-1996	1997-
Annual Budget			
	$1 million per year	$1.5 million per year	$3.5 million per year
Average Grant			
	(average: $25,000)	(average: $60,000)	(average: $125,000)
Type/Form of Investment			
	Grants	Grants Cash Guarantees Cash Flow Advances	Grants Cash Guarantees Cash Flow Advances Recoverable Grants Leveraging other resources around investment
# of Funded Organizations			
	40-50	20	10 (7 as of 1999)
# of Social Purpose Enterprises			
	8	12	25+
Investment Relationship			
	High funder discretionary authority Some multi-year grants Engaged funder Shared learnings Commitment to honesty in relationship	High funder discretionary authority Some multi-year grants Engaged funder Shared learnings Commitment to honesty in relationship and general steps to achievement	High funder discretionary authority All multi-year grants Engaged funder Shared learnings Commitment to honesty in relationship and specific steps to achieving and maintaining same
Targeted Population Served			
	Homeless individuals (both youth and adults)	Homeless individuals (both youth and adults)	Individuals in recovery from homelessness, drug and alcohol addiction Very low-income Disabled physically and psychiatrically

Continued...

Evolution of A Philanthropic Strategy *Continued...*

Category	1990-1993	1994-1996	1997-
Range of Support			
	Program grants Isolated/individual grants Process/qualitative evaluation Evaluation by outside consultant Ad hoc business assistance provided by individual outside consultants	Program grants Individual grants/group meetings Greater outcome-focused evaluation Collaborative evaluation Targeted business assistance	Program grants, capital grants, based on business plans Portfolio approach Social Return on Investment Analysis[8] Shift from evaluation to MIS with emphasis on capacity-building for portfolio organizations to manage internal MIS and evaluation Focused business assistance by REDF team: Venture Committees, Partners-for-Profit, Farber Interns/ Fellows, Computer/other Technology Assistance
Professional Development of Foundation Staff			
	Individual Executive Director with MSW	Individual ED with MSW and MBA earned while working on HEDF	Management Team Approach: ◆ Executive Director with MSW and MBA ◆ Associate Director with MBA ◆ Business Analyst with MBA ◆ MIS, "Evaluation" and Computer Technology Consultants
Form of Primary Donor Involvement			
	Traditional reporting relationship Met 2 times per year for briefings Periodic meetings and input	Interactive relationship Met 6 times per year Regular meetings and communication	Fully engaged relationship Met minimum of 12 times per year Ongoing communication and shared decision-making

1997: The Roberts Enterprise Development Fund

The strategy created by the Foundation to support the work of its investees is part venture capital, part organizational development and part small business development. To this end, REDF has the following components:

Core Investments

The core financial support received by each organization in the portfolio comes in the form of an annual capacity-building grant ranging between $100,000 and $125,000. Among other things, this grant enables the nonprofit to hire an enterprise manager and invest in the human capital required to develop and oversee the execution of a business strategy as articulated in their 3-5 year business plan.

Capital Investments

In order to build upon REDF's Core Investments, the Fund provides additional financing as dictated by each enterprise's business plan and augments that financing with efforts to solicit other charitable investments from individuals, corporations and foundations interested in supporting the enterprise development goals of the Fund and its investees. The Fund also provides additional access to capital resources through a mix of grants, recoverable grants and networking opportunities to secure low-interest loans from both commercial and nonprofit lending institutions.

Business Analyst

REDF partners with Keystone Community Ventures, a local technical assistance organization specializing in nonprofit business development, providing a business analyst to assist the manager and Venture Committee in analyzing the strategic position of the business, critique the venture's business plan, evaluate the business's financial statements (both actual and pro forma), and provide an objective evaluation of the business. The business analyst directly assists management in conducting the analysis and assists the managers in developing their own skill sets in order to assure that knowledge transfer occurs and the future capacity of the organization to effectively manage the venture is developed.

Venture Committees

The Venture Committee consists of representatives from REDF, the nonprofit executive director, the enterprise manager, and as appropriate, a Board member from the nonprofit organization and an individual with direct expertise in the industry sector of the enterprise. Together, the committee meets monthly to review financial and operational performance, identify areas of concern, and help ensure these concerns are addressed in accordance with the enterprise's business plan.

Farber Interns and Farber Fellows

REDF, in partnership with The Phalarope Foundation and Students for Responsible

The Roberts Enterprise Development Fund Portfolio of Investments[9]

Core Investments → Capital Investments → Business Analyst → Venture Committees →	Asian Neighborhood Design Barrios Unidos BOSS CVE, Inc. Golden Gate Community, Inc. Goodwill Industries Jobs Consortium Juma Ventures Rubicon Programs Youth Industry	← Farber Interns/Fellows ← Partner-for-Profit ← Access to Technology ← Outcome Measurement

Business, established the Farber Interns and Farber Fellows program to leverage the talent of business school students in support of investee organizations. The Farber Interns and Fellows are named to honor Michael E. Farber, who passed away in 1996. During his tenure at Rubicon Programs from 1989 to 1996, Mike helped guide the expansion of two of Rubicon's enterprises, Rubicon Buildings & Grounds and Rubicon Bakery. The presence of a summer Farber Intern or year-long Farber Fellow rounds out the Fund's efforts to enhance the capacity of its portfolio organizations in the effective management the venture.

Partners-for-Profit

Partners-for-Profit (PFP) was created to address the enterprises' need for direct market access. The initiative is a focused working group of Bay Area business leaders representing a variety of industries. PFP provides REDF investees with one more level of analysis and assistance. In addition to providing advice and guidance to investees, PFP members assist in connecting enterprise managers to professional networks within their industries and areas of interest. Finally, PFP provides opportunities for the hands-on involvement of business people interested in making a more meaningful and direct contribution to the process of social purpose enterprise creation and expansion.

Access to Technology

REDF has, on a limited basis, equipped each enterprise with the basic hardware and software necessary to gain access to the web and communicate via e-mail. REDF partnered with CompuMentor, a San Francisco-based nonprofit computer consulting organization, to build a private web site for the REDF portfolio and organizations and to train all the nonprofit managers in accessing the web and using e-mail. Additionally, REDF has contracted with Dayspring Technologies to develop custom databases for each organization to track social indicators and to provide training to managers on how to use and build upon them. This management information system is described at length in a companion chapter, "WebTrack and Beyond: Documenting the Impact of Social Purpose Enterprises."

Outcome Measurement

Rather than implementing traditional evaluation methods, REDF, in partnership with its investees, developed and launched a web-based information system called WebTrack which was custom-designed through the use of standard business MIS tools. REDF contracted with BTW Consultants to work with the enterprise managers on developing indices of operational and social outcome success against which future performance can be measured. Over time, BTW Consultants will be building each organization's capacity to conduct its own social outcome studies. WebTrack will enable enterprise managers and REDF to track monthly performance on both economic and social terms for the duration of the five-year initiative. This will allow each organization to assess and modify its program in order to maximize its social impacts in a meaningful and timely manner. In this way, evaluation is re-invented to provide meaningful data to managers, allowing them to continually improve practice instead of awaiting an external assessment of the effectiveness of their programs. Such a management information system also allows each enterprise and the portfolio as a whole to analyze Social Return on Investment (SROI).[10]

Year-End 1997: Assessment of First Year's Experience—Beginning to Articulate the Successes and Challenges of the REDF Approach

Over the course of its first year of operation, the REDF approach appeared to be largely successful. Investments (in the form of grants) were made by REDF in a portfolio of 10 nonprofit organizations. Groups were formalizing and refining their strategies. Venture Committee meetings were held; operating decisions were made in partnership with investee organizations. Increasing numbers of formerly homeless and very low-income individuals were being provided access to the transitional employment opportunities necessary for them to gain stability and long-term independence. On the surface, it appeared that the transition was going smoothly and operating as planned.

However, over a period of months, REDF's staff became aware that several REDF investees were dissatisfied with some aspects of the strategy and its management. The executive and associate directors began receiving, in bits and pieces, feedback that several of the executive directors and business managers were frustrated with the process. This feedback came in a variety of forms:

- The outside consultant hired by REDF to manage the design and implementation of the social outcome indicators system (by which the impact of the programs and businesses would be measured), began hearing comments from various managers that the process was "top down" and did not allow for enough input by participants.

- The business analyst, working closely with business managers examining the operations of the social purpose enterprises, also detected dissatisfaction with how the transition from HEDF to REDF was being executed. Questions were raised regarding whether her contributions were in support of the nonprofits or as a "monitor" on behalf of REDF—a critical concern in light of REDF's commitment to partner with the organizations in the development of their ventures.

- REDF's executive and associate directors, in individual meetings with investee executive directors and business managers, were also receiving feedback that while parts of the REDF approach were going smoothly, other components were viewed as intrusive, overly demanding or (of perhaps the greatest horror to REDF staff) not contributing to the ability of the nonprofit to manage its venture more effectively.

At the same time that some REDF investees began voicing concern regarding the process, the REDF staff itself was also not fully satisfied with how the initiative was evolving. REDF staff discussed the situation with the evaluation consultant and considered the option of bringing in an independent third party to interview the players and assess opportunities for improvement. While REDF staff immediately endorsed this option as a logical possible next step, the REDF executive director wanted first to discuss the issues with the executive directors of the funded organizations. These were all individuals with whom the REDF executive director had long, multi-year professional and, in some cases, personal relationships. The initial, perhaps naive, belief was that with a few well-managed conversations, REDF would be able to solicit input, modify its approach as needed, and move ahead into the new year.

With this thought in mind, a meeting was held with the executive directors and REDF staff to discuss the experience of 1997 and assess how to improve the process and continue moving forward. The meeting began with a review of how the strategy had been developed and an overview of the basic components of the REDF approach, with REDF's executive director presenting areas of concern. These "concerns" were framed in terms of REDF expectations that funded organizations would:

- Be fully committed to managing their ventures and organizations effectively

- Include REDF in all relevant decision-making

- Honestly assess their own strengths and weaknesses
- Make full use of the resources REDF offered
- Provide accurate information in both their reporting and meeting contributions
- Build strong businesses and organizations
- Provide the businesses with the necessary resources required for growth

The document presented to the executive directors included a basic review of the evolution of REDF, as well as an outline of issues the REDF executive director felt were important for both REDF and the participating organizations. These included such challenges as:

- How do we make this process work more effectively for us all?
- How do we not have this be simply one more foundation funding opportunity? (Or is it?)
- Are REDF expectations realistic?
- What is the actual and perceived value added by REDF's participation in your business development process?
- How do we deal with the tension between training/supported employment goals and the need for permanent employment to maintain business viability?
- Once REDF funds are invested, without "real" equity position,how is REDF role to be defined?
- How do we balance executive director, business manager and REDF perspectives on the status of the business venture?
- How do we address the attitude of "we managed this as a small business, we can manage this as a large business"?
- How do we manage the tension of REDF allegiance to business versus the executive director's larger commitment to the organization?
- How do we address the "spin" factor (e.g., the tendency on the part of executive directors and staff to attempt to always put the nonprofit in the "best" light possible when interacting with funders)?

As the REDF executive director was presenting the section on REDF's Expectations, many of the other executive directors had begun flipping through the next pages of the presentation and could see where the discussion was heading. Having presented the basic issues as viewed from the REDF perspective, the executive director then paused halfway through his presentation to ask for comments and opened the discussion for each organization's director to respond and raise his or her own questions or concerns.A, shall we say, lively conversation ensued...

The executive directors raised a number of their own questions regarding the transition process, the interaction between REDF and each organization, and the degree to which the organizations felt allowed to provide input regarding the process itself. The conversation, and subsequent process appraisal, were highly complicated by the fact that some executive directors, while having suggestions for improving the process, were largely satisfied with how REDF had been designed and implemented. These directors expressed frustration about spending their limited time addressing process issues they did not view as significant or of central importance to the overall effectiveness of the REDF process. Others took the meeting as an opportunity to share a variety of concerns and firmly voiced an interest in having a significantly greater role in doing so.

At the next REDF executive directors meeting, there was a follow-up discussion about these issues. The REDF executive director also invited REDF's outside evaluation consultant to this meeting and together the group discussed options for identifying and addressing concerns about the process. The REDF executive director offered and the group agreed that in the interest of all individuals having a full and fair exchange of ideas, the evaluation consultant should bring in outside interviewers to conduct confidential interviews with each executive director and a representative number of business managers. This came to be known as the process appraisal and would be used to frame a four-month re-assessment of how REDF was pursuing its goals and how participating organizations could be more effectively supported in their efforts, while maintaining the integrity of the REDF vision and strategy.

1998: The REDF Process Appraisal

I. Methodology

The REDF process appraisal relied on key informant interviews with 10 executive directors and 12 business managers participating in the REDF initiative. As part of the appraisal, interviews were also conducted with REDF staff and the business analyst.

The methodology reflects two overriding goals:

1. to gather REDF participants' detailed assessments on the initiative's strengths, challenges, and opportunities to improve; and

2. to support the creation of an operating environment that encourages frank feedback.

REDF engaged a consultant, Fay Twersky of BTW Consultants, with evaluation expertise to conduct the process appraisal. This consultant has a longstanding history with The Roberts Foundation, as well as significant expertise in providing evaluation and management information assistance to both nonprofits and the foundations that support their work. The consultant had oversight of the entire process; however, in order to assure open discussion, she contracted with two independent interviewers with no prior contact with either The Roberts Foundation or its funded organizations. All interviews were conducted in person and kept strictly confidential, lasting between 60 and 90 minutes.

The protocols used in the key interviews contained several questions focused on organizational issues and participants' interest in and support of the REDF approach. Others focused on the key components of REDF support. For each component, interviewees were asked to comment on:

- the concept (is this type of assistance useful?);

- the process (is the way the support is made available useful to the businesses?); and

- the interpersonal dynamics (do the businesses work well with the people providing the support?).

The protocol was designed to be open-ended in order to elicit detailed responses from REDF participants. Copies of the protocols are included as an appendix to this chapter.

II. Assessing the Key Components of the REDF Approach to Venture Philanthropy

After conducting key informant interviews, the consulting team consolidated common responses with regard to perceived benefits and challenges associated with participating in REDF. The responses, summarized by each of the major initiative components, fall into two categories: What's Working and Areas to Address.

At the outset, it should be underscored that the overall sentiment of those participating in the REDF initiative was positive. By and large, the businesses felt privileged to be included in the initiative and, in virtually all cases, felt the benefits outweighed any difficulties or frustrations. The participants expressed appreciation for the process appraisal itself and the opportunity it provided to comment on how things were going from their perspective. The following is a summary of the feedback given in each of REDF's strategy areas.

III. Core Financial Investments

The intention of providing an annual grant to the nonprofit enterprises is to enable the businesses to hire an enterprise manager and to support general overhead expenses. These funds—paid in quarterly installments throughout the year—are intended to be flexible and accommodate the range of needs identified by each organization.

What's Working

The organizations were extremely positive about the core financial investments. These core investments were seen as invaluable in terms of the level of support, the length of the financial commitment, and the flexibility of the funds. Both the executive directors and business managers of the organizations saw the overall flexibility of the core financial investments as distinguishing REDF from traditional grant making where grants tend to be more restrictive both in terms of the size, length of commitment and the possible use of funds.

Areas to Address

Organizations expressed concern regarding several elements of the core investment practice. First and foremost, executive directors and business managers said they were unclear about the terms of the multi-year commitment,and what would render them either eligible or ineligible for continued funding. The possibility that the core investment could be taken away if performance did not meet expectations added a level of stress and ambiguity to some relationships with REDF and the business analyst from Keystone Community Ventures. The businesses indicated the need for a more clearly defined set of conditions under which the investment would not be renewed. The businesses also requested the establishment of a "warning system" that would enable them to restructure, seek alternative (replacement) funding, or prepare for the loss of financial support in some other manner.

REDF staff members agreed that greater clarity was needed—for example, better defining what it means to be "under plan"—but the REDF staff emphasized that the business plan and pro forma financials had been and continued to be the benchmark for business performance.

As this issue was discussed, it became clear that there were inherent trade-offs in setting policies: while they add clarity and structure,they can diminish flexibility. This is especially important since the Fund is itself pursuing an evolving form of grant making, venture philanthropy, and is still creating the process by which it will relate to its investee organizations. This issue became especially important later as REDF began responding to the findings of the process appraisal and refining its own approach.

Several executive directors and business managers indicated that because of the relatively large size of the investment in the businesses, REDF sometimes adopted a proprietary relationship with the businesses. This manifested itself in several ways. First, sometimes businesses perceived REDF's "advice" as more directive than consultative. Second, some businesses resented the level of credit assumed by REDF for the evolution and growth of the businesses in its portfolio. Finally, REDF positioned itself as "senior equity partner" because of the size and longevity of its investment, a position seen by some investees as helpful in attracting new investors, but by others as harmful to their efforts to bring in new funders.

These comments reflect a difference in perspective between REDF and some of the businesses. In REDF's view, since many of the ventures were not initially meeting their stated targets it was essential to provide advice and critical feedback. In many ways, that was the central intention of the initiative. If the businesses were performing well enough to simply receive funding and no additional assistance, they would not have been asked, nor would they have agreed, to participate in the initiative from the outset. Furthermore, due to the size of its grants, REDF believed it had a philanthropic investment to protect; and with three MBAs on staff or consultancy and a number of years of experience to offer, REDF felt it had something significant to contribute. More importantly, REDF had clearly articulated the role it intended to play in the initial commitment letter that was accepted and signed by all the organizations. From REDF's perspective, it was simply doing what it had said it would do in the context of the new relationship.

The value of the process appraisal lay in the opportunity to make these varying perspectives conscious, to validate the different expectations held by each player and reach some new and common understanding that would allow change to occur.

IV. Capital Investments

In addition to the Core Financial Investments made available through the REDF initiative, each enterprise has access to additional funds for capital improvements or other needs as dictated by the business plans. Businesses may augment these funds by soliciting other charitable investments from individuals, corporations and foundations. The access to additional capital from REDF is analyzed on a "deal-driven" model, with individual enterprise needs recognized and assessed on a case-by-case basis.

What's Working

REDF has provided several businesses with additional funding to support their expansion plans, purchase needed equipment or meet other enterprise needs. This access to additional funding is a significant benefit to participating businesses. In general, the businesses see REDF as highly flexible and responsive to requests for additional funding. One business noted that funding for a new piece of "cutting-edge" equipment has helped compensate for the additional labor expenses associated with employing an at-risk population with costly training needs. The relative advantage afforded by this equipment helps the group achieve its social goals while attempting to break even.

Many of the organizations noted that their participation in REDF makes it easier to solicit funds from other sources. By participating in the REDF effort, the credibility of the business can be enhanced, both by virtue of their selection by REDF, and because of the extent of long-term support committed to those enterprises. They also benefit from REDF's ongoing efforts to raise the visibility of the initiative and inform a growing field of interest in this area nationally.

Areas to Address

Nonprofit organizations seek out and rely on multiple sources of funding to support their enterprise development efforts. As mentioned earlier, REDF's position as "senior equity partner" was problematic for several organizations. These organizations feared other funders might be reluctant to support their efforts because they would not want their support to be overshadowed by REDF.

The consulting team identified that a key challenge for REDF is to work with the investees to develop a process that enables the enterprises to bring in other funders without compromising one of REDF's primary objectives: putting the venture philanthropy strategy into practice. The process appraisal suggested that at this point in its development, REDF would benefit from clarifying the specific nature of The Roberts Foundation's partnership with the social purpose enterprises and working with its investees to more effectively communicate that partnership to other potential investors/funders.

As a result of this discussion, REDF also decided to drop the use of the term "senior equity partner" to describe its relationship to investee organizations and adopted the term "senior funding partner." This was due to the fact that some program officers voiced discomfort with what they felt was the proprietary role of The Foundation in its work with portfolio organizations.

V. Business Analyst/Targeted Business Assistance (Keystone Community Ventures)

The business assistance offered as part of the REDF initiative provides businesses with ongoing technical support for assessing the strategic position of the businesses, critiquing the business plans, evaluating the financial statements and accounting systems, and other general assistance in evaluating the health of the businesses. The purpose of the support is to help the businesses operate more effectively and profitably. Keystone Community Ventures was hired to oversee this technical support, either by providing the assistance directly or bringing in the needed expertise. This support is further augmented by the active participation of the REDF associate director and executive director in monthly Venture Committee meetings.

What's Working

All the groups embrace the concept of being provided with some form of business consulting services aimed at increasing their general business savvy and at growing the business to scale. For many organizations, the technical assistance provided by Keystone Community Ventures is extremely valuable. Those with "under-developed" in-house financial expertise are particularly appreciative of the direction provided so they can proceed with preparing business plans and establishing business-oriented financial and accounting systems.

Areas to Address

Investees most in need of general business support indicated that they would like increased access and time with the business analyst. Because she provides consulting to all of the businesses,her time with any one group is perceived as limited. A subset of businesses would prefer having the business analyst available to work collaboratively at their offices for a few hours every week,particularly until their improved financial and accounting systems are in place.

The process appraisal surfaced confusion and concern about the role of the business analyst. The nonprofit organizations were not clear as to whom the business analyst viewed as the client—the social purpose enterprise itself or The Roberts Foundation. She was supposed to be helping the organizations, yet—at the same time—alerting REDF if individual businesses were not meeting targets. This consultant was also in the position of monitoring the timely submission of financial reports and requesting those reports if and when they did not arrive when expected. This placed her in a difficult position between the investees and the funder.

Identifying this concern was enormously helpful to REDF in its response to the process appraisal findings. REDF staff was able to address much of this confusion by better defining roles and responsibilities for all staff and consultants working with The Foundation.

VI. Venture Committees

The Venture Committees were established as a capacity-building forum for enhancing the ability of the businesses to successfully execute their business plans. As originally conceived, the Venture Committee representatives were to consist of REDF staff and business analyst, the nonprofit executive director, the business manager, and, as appropriate, a board member. The committee was to meet monthly to review financial and operational performance and identify strategies for addressing concerns.

What's Working

The majority of the organizations found it helpful to have monthly meetings to review and discuss financial and operational business performance issues. Some of the business managers appreciated the opportunity to go over business issues with both REDF staff and the executive directors so that everyone was "on the same page" regarding the status of the business and its direction. (In some cases,the monthly meetings provide the business manager with an ally—REDF—when he or she needs to convince the executive director and nonprofit parent to take a particular action.)

Areas to Address

The process appraisal found that the composition and dynamics within the Venture Committee meetings sometimes resulted in tensions regarding who sets the direction for the business. In some cases, in particular when board members were present, the executive directors and other nonprofit staff did not feel free to be completely candid in the meetings. In other cases, executive directors were concerned about the extent of REDF involvement in internal organizational issues such as the performance, hiring and firing of employees, or the relationship between the businesses and nonprofit parent organizations.

These dynamics were compounded by the fact that the Venture Committees were bringing together a whole new set of players with no prior history of working together. These individuals required time to sort out role relationships as well as basic personal operating styles in order to function effectively as a group charged with overseeing the activities of the venture.

Furthermore, at some Venture Committee meetings, selected groups felt there was an insufficient recognition for the hard work undertaken over the previous month(s) as compared with the businesses' shortcomings. While the businesses recognized the need to identify and resolve problems, they felt that feedback from REDF often created an urgency or pressure to focus on "problem areas" and get on with it—to move faster, get all systems in place, and grow to scale more rapidly.

From REDF's perspective, the Venture Committees were not designed to be comfortable meetings. Rather, they are structured to bring all the key decision-makers around the table and tackle tough questions. In this view, tensions are inevitable, particularly since the meetings can highlight internal strains and differing opinions among the nonprofit's business manager, executive director and board. Good news is valued, but not emphasized, REDF staff members say, because there is limited time and the group needs to focus its attention on the trouble spots. Just as the executive directors must oversee all elements of their nonprofits, REDF staff members say, REDF too, has a responsibility and right to aggressively manage its portfolio of social purpose enterprises—even when issues arise relating to the nonprofit parent. REDF staff feels this does not mean REDF and the nonprofits cannot work as partners. In fact, staff members stress and regularly act upon their commitment to working in partnership with other players. But it does, according to REDF, mean there needs to be recognition that, in any partnership, each partner has different roles, authority and influence.

The differences in perspective that emerged from the process appraisal led the consulting team to suggest specific policies to clarify who attends Venture Committee meetings, how they are run and what substantive areas are within and outside the purview of each partner. Further, as in most dynamic work environments, there is often pressure to perform and the ideal is to control the pressure level so it remains constructive rather than destructive. Regardless, the process appraisal suggested that the pressure level within the initiative might need to be readjusted.

VII. The Farber Interns/Fellows Program

The Farber Intern or year-long Farber Fellow provides the social purpose enterprises with targeted management and/or business support. The intern/fellow's specific responsibilities are tailored to the needs of the individual group and have ranged from undertaking industry market research projects, to assisting in the preparation of the business plan, to carrying out other projects designed by the business manager. This flexibility regarding the use of interns is intended to help the business managers develop or expand their business acumen and capacity, thus increasing the venture's potential for long-term success.

What's Working

A majority of the businesses have used a Farber Intern. By providing the businesses with assistance tied to overall operations—from putting together a business plan to tackling day-to-day operational issues—the interns are key allies in helping the businesses expand overall capacity. Perhaps the greatest value of the interns is their ability to pitch in on a daily basis for a period of months. The presence of another person with technical business expertise has been a great resource to the nonprofit staffs, most of whom work long hours. Some of the interns have been so successful that the businesses now use them for other consulting assignments, or are seeking ways of using them again in the future.

Areas to Address

The value of the interns varies somewhat, based on the knowledge of the intern and ability level of the individual working with the business, as well as the overall fit of the intern with the venture and nonprofit culture. While a few of the businesses are not pleased with the outcome of the Farber Intern program—an almost inevitable result, given the vagaries of hiring—most generally indicate an interest in hiring another intern in the future. The consulting team suggested that perhaps the screening and placement process could be refined to increase the likelihood of a good fit between an intern and a business.

VIII. Partners-For-Profit (PFP)

Partners-for-Profit is a working group comprised of business leaders in the Bay

Area business community. PFP was established to provide business contacts to those REDF investees that have developed the expertise and maturity to go to scale. The stature and scale associated with potential PFP contacts can have a significant impact on the opportunities available to the businesses.

What's Working

The businesses appreciated the significant role the PFP can potentially play in launching their operations into a much larger milieu. Several businesses have had preliminary discussions with the PFP and were impressed by the potential contacts and business opportunities they may afford. Several of the businesses indicated the PFP is potentially the most valuable asset provided by the REDF initiative in that one successful phone contact has the potential to lead to a major contract or increase in business.

Areas to Address

Executive directors and business managers were hopeful that the PFP would materialize as a source of future business opportunities. There is an interest in gaining increased understanding of the prerequisites and timing of possible meetings with the PFP. Two of the groups indicated some frustration by the lack of direct access to the PFP or PFP contacts, indicating that it would be helpful if they could pursue the relationship more directly themselves,instead of using REDF as an intermediary. This suggestion may prove difficult to implement, however, as PFP members specifically asked that REDF—in this case,the associate director—act as liaison, managing the contacts and workflow between PFP members and REDF investees.

IX. CROSSCUTTING THEMES EMERGING FROM THE PROCESS APPRAISAL

Strengths

The process appraisal highlighted widespread support for the REDF initiative. For the most part, REDF participants demonstrated a strong understanding and appreciation for REDF's evolving approach. As one participant says:"I'm passionate about it. It's a great vehicle for making change in lives." The executive directors and business managers saw significant advantages from their association with and participation in REDF.

REDF's specific strengths include:

- **Supporting investees' efforts to pursue a double bottom-line strategy.** REDF's funding, approach and philosophy enable the nonprofits to pursue their dual goals of operating a successful business and helping hard-to-employ individuals gain skills, work experience and access to the general market place of employment.

- **Developing support systems and programs that strengthen an organization's viability in the marketplace.** REDF's wide-ranging support—from targeted business assistance to Farber Interns and Partners-for-Profit—layers in expertise, advice and connections that increase the businesses' ability to be profitable. By and large, business managers and executive directors believe REDF has pieced together a package of truly beneficial support.

- **Raising the nonprofits' visibility and credibility among businesses, funders and others.** REDF's approach and connections heighten the businesses' profile and credibility, increasing their exposure in business and funding circles.

- **Providing the nonprofits access to other funders and hard-to-attain resources.** By and large, the investees say their connections with REDF open doors to potential business deals, business advisors and funders.

Most of those interviewed also praised the expertise and enthusiasm, as well as the mix of resources, advice and perspectives available through REDF staff and consultants. Many were aware of and appreciated REDF's increasing willingness to reshape program components to meet individual nonprofits' needs and characteristics.

Challenges

The process appraisal also demonstrated that the REDF initiative, though widely supported by the investees, faces several important challenges that potentially undermine its overall effectiveness.

- **Ambiguity.** Many of the concerns identified are rooted in ambiguity. Though REDF staff has repeatedly attempted to define the initiative in meetings and correspondence with participants, from the perspective of participating organizations some components still appear to suffer from a lack of clarity. Specific examples include: the conditions and process for not renewing core investment; the requirements needed to appear before the Partners-for-Profit;and the role played by the business analyst. This lack of clarity has contributed to uneasiness among the managers and was beginning to undermine REDF efforts to build a collaborative spirit among portfolio organizations.

- **Power Dynamic.** REDF has been striving to break the power dynamic found in traditional funder-grantee relationships. REDF staff do believe, however, that they have the right and the responsibility as social venture capitalists to ensure that both the investees and the REDF approach itself are as successful as possible. While the investees generally appreciate and value this involvement, REDF's hands-on approach can also be perceived as undermining the enterprises' autonomy and authority. For example, suggestions from REDF staff can be perceived as ultimatums by the businesses. Core investments, though designed to be annual and part of a long-term relationship, are seen by at least a few participants as a "potential stick" to be wielded by REDF in order to keep the nonprofits in line. And REDF staff comments at Venture Committee meetings can be perceived as challenging, though REDF sees them as an important way to help maintain accountability for outcomes to which the investee has committed.

- **Pressure.** The businesses felt they were operating under immense pressure. While REDF had attributed this tension to the pressures inherent in running any small start-up business, many business managers and executive directors said REDF adds another layer of stress:from the push to grow to scale, to REDF's reporting expectations. While most said they understand and agree with REDF's aims and approaches, a number of executive directors and business managers felt the pressure was unproductive. Moreover, they said the emphasis on business operations has resulted in a pressure to demonstrate financial results that undermines their ability to achieve a balanced double bottom-line, with the push for business performance taking a toll on the investees' social agendas.

- **One-Size-Fits-All.** Though a number of executive directors and business managers noted REDF's increasing willingness to tailor programs to meet each organization's particular needs—for example, recent changes in the composition and timing of some businesses' Venture Committee meetings—a number of the weaknesses identified seem to stem from a one-size-fits-all approach. Examples include:

  A business analyst who is not able to provide all the expertise needed to all businesses;

  Executive director meetings where time is spent on issues that are not always relevant to all organizations; and

  Partners-for-Profit being dominated by individuals from larger corporations who have little to offer some of the smaller investees partnering with REDF.

REDF Process Appraisal Conclusion

At the time of the process appraisal, REDF was already aware of and concerned about many of these challenges. However, solutions had been difficult to craft. For example, it was not easy to balance flexibility with clarity. Flexibility can be perceived as vague, but it allows for important and timely adjustments in process and support. On the other hand, clarity can be perceived as controlling and inflexible, but it can also provide some comfort to investees unsure of all of the rules and expectations of the new social venture capital approach. There is often a trade-off between the two. REDF wants to be seen as a helping hand, a well-connected and well-intentioned partner that is just a phone call away. While many of the businesses welcomed the offer and benefited from the additional partnering, others saw REDF as meddling and were reluctant to talk openly with REDF staff about their challenges. The differences between the two relationships—one that spirals up into an increasingly collaborative approach, one that spirals down into decreasing contact and mistrust—are embedded in a complex web of personality, relationship and communication challenges.

At the time of the appraisal, the REDF initiative faced obstacles in its present and future. The process appraisal demonstrated, however, that as REDF moves forward,it does so with a group of nonprofit organizations that supports its overall effort, shares a common understanding of the obstacles ahead, brings suggestions for addressing key issues and appreciates the opportunity to work together to strengthen the initiative.

Does REDF have the potential to be a great initiative? Yes. But whether it can manifest that greatness in part depends on how it meets the challenges that will continue to present themselves along this path of innovation. REDF is currently facing—and will probably continue to face—the challenge of change. That is inherent in its nature as a dynamic collaboration assuming the risk of innovation and doing things differently—in both philanthropy and the development of social purpose enterprises.

Recommendations Emerging from the Process Appraisal

A number of specific recommendations emerged out of the process appraisal regarding ways to improve various aspects of the initiative, and as described in the following section, REDF responded directly to most of those recommendations. It is important to note several guiding principles that cut across the recommendations. These guiding principles were designed to help REDF staff and participants build a more productive relationship. They were:

- **Clarity.** REDF staff and participating investees need to ensure they have a shared understanding of the initiative's aims and approach. Nonprofit and REDF staff should work together to better define areas that are unclear, with a particular emphasis placed on clarifying specific program components, the definition of successful collaboration, and the expected roles and responsibilities of nonprofits, enterprises,REDF staff and consultants to the REDF initiative.

- **Communication.** Both the investees and REDF staff must redouble efforts to communicate clearly and frequently. REDF staff will need to be particularly attuned to actions and comments that negatively feed the historic funder-grantee power dynamic. The investees—or at least some of them—will also have to affirm their commitment to honesty about the challenges facing their enterprises and not attempt to "spin" REDF in the traditional way funders are treated by grantees.

- **Collaboration.** The REDF initiative is built on partnering. Investees and REDF staff must work collaboratively to identify and address challenges within both individual businesses and the overall initiative. This places a burden on both participants and REDF staff to invest the time necessary to ensure they are forging true partnerships.

1998/1999: Responding to Opportunities for Change

In June 1998 a final report on the process appraisal was presented to REDF staff. At that point, the Foundation had a choice: it could simply receive the report and not share it with participants in the Fund, or it could use the report as an organizing tool to move the work of the Fund to a new level of effectiveness. In retrospect, the correct decision was obvious and it may seem overly self-congratulatory to now applaud that decision.

However, it must be acknowledged that the decision was not an easy one. In general, the foundation community is not known for its bold steps to engage grantees in critiquing or modifying foundation operating practices. More specifically, in this particular case REDF's executive director leans toward perfectionism. It was not easy to accept that the initiative he had conceived and led might need to be refined or that REDF's overall management approach developed over the prior 10 years might benefit from different operating procedures.

At this point, it is important to acknowledge the critical role played by George Roberts in affirming a process whereby change could be pursued not only in the traditional foundation approach, but also in how REDF staff sought to execute the strategy he had provided resources to underwrite. Instead of creating an environment where any outcome that departed from plan was viewed as a mistake, he encouraged REDF staff to understand that the initial process and actual achievements of the Fund would evolve over time. Just as the investees were learning how to successfully operate a social purpose enterprise, REDF had to learn how to manage support of their efforts. Indeed, as REDF staff moved through the process of releasing the report to the portfolio's executive directors, Roberts continually reassured REDF staff that "healthy criticism was positive" and that it should be accepted in the spirit offered.

To that end, REDF staff began a three-month process of regular meetings with portfolio executive directors that included:

- reviewing the report with portfolio executive directors,
- responding to each of the issues raised in the report,
- exploring with the executive directors what areas were negotiable and which were not, and
- integrating those changes into the overall operation of the Fund.

In addition to this process and the steps presented below, this chapter, "The Challenge of Change," was itself reviewed and commented upon by members of the REDF Investee Portfolio prior to its release. The purpose of this unique step was to help assure that the various stakeholders in the REDF initiative would have an opportunity to read the report and provide input to the final public document.

In response to the general issues raised by the report with regard to clarity, communication and collaboration, the following steps were taken by REDF in concert with investee organizations:

- Individual letters were provided to each organization re-stating REDF's expectations of funded organizations and providing each executive director with specific feedback concerning performance in five areas: commitment to the goal of market-based sustainability, commitment to achieving an appropriate level of scale, commitment to the creation of venture committees, financial accountability, and commitment to business and program accountability. Organizations were provided with both positive feedback and areas for improvement.
- REDF staff met individually with each executive director to review these letters. Executive directors were specifically informed as to whether REDF felt their organization was: 1) in good shape,2) had some areas of concern that if addressed wouldn't be a problem, and 3) had significant/serious areas of concern which, if not addressed in dramatic ways, could mean the organization would be "excused"from the portfolio in 1999.
- Staff from REDF and the organizations then jointly agreed upon and set specific

performance targets to be pursued over the next six-month period.

- Discussions were held within the REDF Information Management Team regarding the role of the business analyst. It was decided that the analyst's role would be strictly that of support and facilitation,and would not include any reporting. Those reporting responsibilities were transferred to REDF's associate director.

- The executive directors agreed to meet on a monthly basis with REDF staff to discuss crosscutting issues of concern to the groups.

- The REDF executive director committed to meet with each organization's executive director on a regular basis to discuss specific issues of mutual concern and track overall interactions between REDF and investee organizations.

- REDF established a portfolio-wide list-serve (an Internet-based e-mail system with the ability to track "threads" of conversations between list-serve members) as a tool for engaging REDF, executive directors and business managers in general discussions regarding any aspect of their work.

- Overall, through this process REDF became much more aware of the need to reflect on its communication with organizations and individuals in its portfolio and which member of the REDF team is most appropriate to pursue issues of concern.

- Collectively, the executive directors and REDF staff agreed that a new document, tentatively titled "Practitioner Perspectives," would be developed to provide REDF practitioners the opportunity to reflect upon and write articles regarding the challenges of their work. The papers comprising this document would also serve as a platform to promote the efforts of individual organizations and professionals involved in the REDF initiative.

In addition to REDF's responses to these general areas of concern, REDF and its portfolio organizations also took the following steps, a number of which were already underway at the time of the process appraisal:

Core Investments:

- REDF modified its disbursement schedule to better accommodate the cash flow needs of individual organizations by coordinating specific amounts of grants with the projected cash flow requirements presented in business plans of each organization. Prior to embracing this as an operating policy, this had been done on a case-by-case basis.

- REDF dropped the language "senior equity partner" in favor of "senior funding partner" to better reflect both its history of investing in portfolio organizations and interest in working with other possible investors/funders.

Business Analyst:

- Reporting responsibilities of the business analyst were transferred to REDF's associate director. This shift also eliminated previous time constraints of the business analyst, freeing up more time for direct work with investees.

- The REDF associate director and business analyst are working together to identify industry/field-specific consultants for those organizations in need of more specialized consulting.

- REDF clarified the expectation that as issues arise in the course of providing business assistance or other support from REDF, portfolio organizations must take responsibility for informing REDF's staff of the need for change. The REDF executive director articulated the Fund's commitment to providing the most meaningful and constructive support to investee organizations.

Venture Committee Structure:

- REDF staff affirmed for the portfolio that the decision to include an organization's board members in Venture Committee meetings was the responsibility of the investee organization. REDF's concern was simply that the board be fully involved and aware of issues affecting the social purpose enterprise.

- REDF clarified that the primary contact with Venture Committees would be through both the associate director and business analyst, with REDF's executive director attending at regular intervals, as deemed appropriate by the investee and REDF jointly.

- REDF affirmed ongoing assessment with each investee regarding whether the Venture Committee process was effective and how to make it more so.

- REDF committed to regularly affirming the good work and efforts of portfolio organizations before focusing on areas needing improvement.

Farber Interns/Fellows Program:

- REDF's associate director will work more closely with enterprise managers to assist in screening and interviewing potential candidates.

- Both REDF and organizations affirmed the challenge of bringing in new staff and recognize there is no way to guarantee a "good fit" between any individual and an organization—but that all involved would work to identify any problems early on and address them promptly.

Partners-for-Profit:

- REDF committed to work with PFP to clarify their expectations of investees interested in presenting to the larger group.

- REDF committed to communicating these expectations more effectively to portfolio organizations and working with them to help them meet those expectations.

- REDF will aggressively recruit individual business mentors for those organizations requesting such support.

- REDF will work to recruit additional PFP members who reflect the diversity of industries represented in the portfolio.

Lessons for the Field of Philanthropy: Transitioning Through the Change Process

At the close of 1998, REDF was well positioned to continue building both strong partnerships and viable social purpose enterprises. The experience of opening itself up to criticism by its investees was in some ways a difficult one. However, the power unleashed by the opportunity for key players in the initiative to re-connect with their basic vision for both individual organizations and REDF as a whole has been an unmitigated success, creating new potential for building even more significant partnerships in the future. The following lessons from this experience are applicable to other funders attempting to become more responsive to the needs of their grantees:

It is critically important that a donor be fully committed to supporting an honest grantmaking process grounded in integrity.

Beginning with the creation of the HEDF in 1990, George Roberts continually expressed to his staff the importance of being open to understanding the true learnings of both the grantees and staff efforts. The 1996 report produced by the Foundation, *New Social Entrepreneurs*, is distinct from many foundation reports in that it went well beyond the traditional documentation of "grants awarded, programs launched" to describe the specific experiences of those involved in the initiative and the challenges they confronted. As the REDF experience evolved over its first year, George Roberts continually supported staff efforts to "get to the core" of the issues and attempt to engage investee organizations in breaking through old roles and assumptions regarding the appropriate relationship between funder and grantee.

This backing allowed REDF staff to execute the four-month long process of self-assessment and discussion with its investee organizations.REDF staff, led by an executive director already known for his personal directness and desire to build an organization with true integrity, was in essence "given permission" to push the envelope. The process engaged REDF investees in an open debate regarding the Foundation's approach not often seen in the field of philanthropy. While many foundations fund evaluations of grantees,seldom do they ask their grantees to evaluate the quality of the foundation's efforts and even more seldom do they publish their experience in the form of a document such as this one.

While the staff of REDF is fully committed to a process of honesty and integrity, it is only with the backing and support of the donor that they can act on that commitment. Foundation boards should understand that if they seek to fund innovation and experimentation in the nonprofit sector, they must not simply voice openness to the variety of outcomes such innovation might bring, but must continually affirm staff efforts to honestly reflect on their work and engage grantees in that process. Otherwise, a drive to "succeed" may undermine the full possibility of learning from that potential evolving success.

In many ways, the Foundation has learned more from what it has not executed effectively than it has from those efforts which have been viewed by all as a success.

The challenge of building genuine trust in philanthropic relationships is more difficult than many would like to believe.

The Roberts Foundation has a funding relationship with many of its investees that has spanned many years. In some cases, the relationship has been built over the full nine years of the Foundation's experience in this area of grant making. REDF's executive director came to the Foundation with significant experience in the management of nonprofit organizations. The associate director of REDF also had experience in the nonprofit sector and both directors felt they had made meaningful efforts to engage in a true "partnership" with its investee organizations.

Even with this background, developing truly honest, open relationships between REDF and the organizations' management has been extremely challenging. While some may find the thought offensive, the fact of the matter is the funding relationship is in many ways founded upon deceit. The need of nonprofits to secure the funding for the programs they wish to operate continually forces them to re-design, re-position and re-present their core programs in response to an often shifting and difficult to negotiate funding marketplace. In this marketplace, the successful nonprofit leader, in addition to being an effective manager of programs targeting society's most challenging problems, must also be able to "spin" the funder. Executive directors and program managers alike must be able to play the game effectively if they hope to secure the funding they need to keep their doors open. Whether government, foundation or individual donor support, they must have the skills of a politician—continually stroking, affirming and cultivating the funding relationship. Grants and grant decisions are often predicated with greater reference to politics, persuasion and perception than to any objective assessment of the value that they create in our communities.

This spin effect is supported to some degree by the realities of the power imbalance present in the funding relationship. While foundations need good nonprofit organizations to which they can give their support, those with the capital tend to set the terms of the relationship. As such, foundations need to be especially aware of how the realities of this power dynamic effect their communications with grantee organizations. It may seem self-evident, but communication takes place on many different levels and through a variety of media, as well as personal avenues. And understanding how foundations and the organizations they fund communicate is a much more challenging task to understand than might first appear. Executive directors, business managers and program directors all have different perspectives and communicate with foundation staff in various ways. Furthermore, the "Greenspan Effect" (whereby a foundation staff's word may carry far more weight than intended) can also distort the effort to communicate openly. Staff must use spoken words, e-mail and letters appropriately and be consistent in their communications.

These elements,along with a host of others, work to keep funders and grantees in separate camps, each circling the other at appointed times of the year, when grant reports come due and new funding initiatives are launched. Working to break through such camps is a major challenge for professionals on both sides of the checkbook. Whether funder or grantee, investor or investee,simply because you have a "good working relationship" doesn't mean you will tell each other the truth. And just because you ask someone to give you feedback on your work, doesn't mean he will tell you what's truly on his mind.

Finally, developing a funding relationship based on trust and open communication takes more work and time than most players may want to invest. While there can be great rewards in doing so, the challenge cannot be underestimated. Simply because one foundation announces a commitment to changing the rules of the game doesn't mean that the rules themselves have actually changed—only that there is perhaps an opportunity to move in a different direction. If other foundations continue in a classical approach while one funder shifts to a venture approach, the potential tensions between both approaches must be managed in some way by all involved. One should never underestimate the energy required to create the type of changed relationships described in this document.

It takes time to create a meaningful venture philanthropy practice.

Effective venture philanthropy grantmaking is not like buying a share of stock or even funding an effective program—it is like building an organization and challenging an effective program to have even greater impact. This effort takes a great amount of time in order to work through a process of organizational, cultural and individual transformation.

A commitment to such an investment horizon is not for everyone. There is a place for "one-shot" grants targeting short-term needs of both nonprofit organizations and society. If one is going to talk about long-term venture philanthropy, it must first be understood that both foundation staff and investees must have enough time to work through this process appropriately. It cannot be rushed or it will run the risk of simply repeating the mistakes of the past, without benefiting from the many worthy and important lessons to be gathered in the process.

If you can't take the time to do it right, you probably shouldn't do it at all.

There is a fundamental power imbalance present in funding relationships. Rather than attempting to deny that fact, it is better to acknowledge it and find ways to work more effectively together with respect for the power each player brings to the partnership.

Perhaps one of the most important things to come out of the REDF process appraisal was an honest discussion with the executive directors and business managers regarding the power dynamics of the funding relationship. Talking about power imbalances is hard. We all like to have a pretense of equality and are committed to the idea that all people, regardless of any number of social status factors, are equal.

Certainly, nonprofit managers have a degree of power. After all, foundations and government players need them in order to realize their own objectives. However, those with access to financial resources realistically do have greater power than those without. If a foundation doesn't like how a certain program is being managed, it can withdraw its support at the next funding cycle. If a foundation really doesn't like how a certain issue is being addressed, it can simply create a new initiative or, in some cases, convert to an operating foundation and engage in the work directly itself. Most nonprofit organizations don't have those options.

The most powerful aspect of the REDF experience has been the degree to which we have been able to address the issue of power directly and move ahead. This conversation is in various stages of process with each of the investee organizations and continues to be a dynamic topic within the REDF management team as well. For the most part the organizations participating in the REDF initiative are approaching the partnership from a position of confidence and strength while allowing

REDF to also maximize the strength it brings to the relationship.

Both investee and funder must be open to learning new lessons and understanding how they must transform themselves to maximize the benefits of evolving relationships in a new market place. This responsibility rests equally upon both parties and is not simply the responsibility of the grantmaker.

The true challenge of engaging in a process of honest self-assessment and change should not be underestimated. The venture philanthropy process requires openness to admitting shortcomings in oneself, one's own organization and those of others. It necessitates a commitment to working through those issues and a belief that the overall goal is worth the time and effort necessary to achieve it. Organizations and individuals tend to succumb to the inertia of the status quo.

That said,the potential benefits of pursuing improvement, increased effectiveness and enhanced quality are well worth the effort. With the first phase of REDF's implementation of a venture philanthropy approach behind us (for one must continually embrace the challenge of change) we are well positioned to take on new challenges and document future achievements. The responsibility for pursuing this positive change rests equally upon both parties. With partners willing to openly assess our mutual areas for growth, as we move through future learnings we can continue to build valuable community assets and sustainable avenues out of poverty for those on the margins of society.

Conclusion

This chapter began with a presentation of Michael Heifetz's seven stages of organizational change. And we have now seen how The Roberts Foundation progressively moved through each level in its process of executing a venture philanthropy approach to its grantmaking:

Stage One: Choosing the Target

Our first step was choosing the target of supporting the creation of social purpose enterprises that would provide transitional and permanent employment to those on the margins.

Stage Two: Setting Goals

We set the goal of designing and applying a venture philanthropy approach to our grantmaking and created a conceptual framework/grantmaking strategy to guide our efforts.

Stage Three: Initiating Action

We took the step of organizing a portfolio of nonprofit organizations committed to pursuing that goal and making significant investments in their work.

Stage Four: Making Connections

As we began to execute our strategy and take action, we found a need to connect more deeply with those involved—seeking out their input and together building greater ownership of our process.

Stage Five: Re-Balancing to Accommodate the Change

Stage Six: Consolidating the Learning

As a result of the feedback received through the process appraisal, we re-adjusted our relationships and communicated a renewed vision for our efforts, before evolving into

Stage Seven: Moving to the Next Cycle

As we prepare for the next phase of our work, we have re-confirmed our targets and the strategy in which we are engaged to attain our goals. Challenges remain to be addressed and success is not guaranteed by any means. Regardless, we faced a crossroads of sorts: we could have maintained the defense of a foundation process that "worked" but was not achieving its full potential or we could open up the process itself to examination and transformation. Having done so we are all stronger, more effective members of our partnership and are re-committed to moving forward to engage the future that awaits us all.

The staff of The Roberts Enterprise Development Fund and BTW Consultants-informing change jointly authored this paper, with significant input from the REDF Portfolio. If the reader is interested in discussing any aspect of our experience at greater length, the individuals contributing to this report may be reached through the REDF Web Site at www.redf.org.

Footnotes

1 While The Roberts Foundation is a private foundation that makes grants to nonprofit community-based organizations, it views all its financial support of those organizations as a form of investment. Therefore, "grantees" are referred to throughout this document as "investees."

2 The stages identified by Drucker are similar to Heifetz's and include: Stage 1: Exploring the Environment; Stage 2: Synthesizing the Learning; Stage 3: Integrating the Learning; Stage 4: Internalizing the Learning and Creating Ownership; Stage 5: Applying the New Learning; Stage 6: Reflecting and Checking; Stage 7: Disseminating.

3 An example of this is the Change Cycle developed by Interchange International which includes Stage 1: Loss; Stage 2: Doubt; Stage 3: Discomfort; Stage 4: Discovery; Stage 5: Understanding;and Stage 6: Integration.

4 From 1986 through 1997 the staffing for The Roberts Foundation was provided under contract by Pacific Foundation Services, a management firm with expertise in philanthropy. It was not until 1998 that The Roberts Foundation itself employed staff to manage The Roberts Enterprise Development Fund.

5 George R. Roberts, public comments, Stanford University, Graduate School of Business, November 1997.

6 While the creation of the HEDF represented a major commitment on the part of the Foundation, it is important to note that the Foundation continued to be active in funding a variety of organizations involved in areas of historic interest to the board of directors. While the Foundation increased its annual support for the HEDF/REDF initiatives,it continues to fund other areas of interest based upon a classical philanthropy framework.

7 Please see *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-profit Enterprise Creation*, and other documents available through the REDF web site:www.redf.org.

8 For a more detailed discussion of SROI, please see Chapter 8.

9 The ten organizations listed here were the original process appraisal participants;however this list does not reflect the current REDF portfolio of organizations.

10 For a more detailed discussion of SROI, please see Chapter 8.

11 The ten organizations listed here were the original process appraisal participants;however this list does not reflect the current REDF portfolio of organizations.

Appendix A
Process Appraisal Protocols

REDF Process Appraisal
Business Manager Protocol

Background:

1. Please tell me a little about your professional background. What is your current position and responsibilities? When did you start working with [enterprise name]? What was your background prior to joining [enterprise name]?

2. What do you see as [enterprise name] overall strengths/weaknesses? What are your goals for [enterprise name] over the next year?

REDF:

3. What first comes to mind when you think about REDF? [Probe: strengths, challenges, successes, frustrations]

4. Was [enterprise name] involved in the Roberts Foundation's earlier work on the Homeless Economic Development Fund? If so, what are your impressions of the transition from the Homeless Economic Development Fund to REDF? [Probe: your level of involvement in decision-making, strengths/weaknesses of change, value to your organization]

5. REDF is committed to the Social Venture Capital approach. What is your understanding of the Social Venture Capital model? What is your opinion of this approach? What is your definition of a New Social Entrepreneur? Do you consider yourself a New Social Entrepreneur? Why/why not?

6. As you know, REDF offers six major forms of support to nonprofit enterprises—

   core investments (the $xxx grant you receive from REDF)

   access to other capital

   targeted business assistance

   the venture committee

   the Farber Interns/Fellows program

   Partners-for-Profit; and

It also includes an information management component. We'd like to look a bit more closely at each of these elements. In each case, we'd like to explore three areas: ***the concept*** (is this type of assistance useful to your enterprise); ***the process*** (is the way the support is made available useful to your enterprise); and ***the interpersonal dynamics*** (do you work well with the people providing the support).

First let's look at the core investments. [Probe: What works well/poorly? Level of contact with/support from REDF staff? Who? Opportunity to offer feedback? Relevance/value to your enterprise? Limits to value? REDF staff responsiveness to your needs?] *Follow with questions on targeted business assistance, the Farber Interns/Fellows, access to other capital, Partners-for-Profit, information management, and the venture committee.*

Organizational Issues:

7. Let's now look at some organizational issues. What are relations like between the three main participants in this effort: the social purpose enterprise, REDF and the nonprofit organization? [Probe: Do the three entities share common goals and priorities? Are there tensions?]

8. Who do you turn to for guidance/assistance when making business decisions

about the social purpose enterprise? REDF or your nonprofit organization's executive director or other? Why? Is this a source of tension for you?

9. Are there any other organizational issues/concerns you'd like to raise? [Probe: Value of meetings, reports, REDF as source of future funding, other REDF requirements (WebTrack, e-mail, web site usage, social cost accounting, special event?)]

Recommendations:

10. Do you have any overall recommendations for strengthening the REDF's work with your organization? Any additional comments/concerns you'd like to make?

REDF Process Appraisal Executive Director Protocol

Background:

1. Please tell me a little about your professional background. What is your current position and responsibilities? When did you start working with [nonprofit organization name]? What was your background prior to joining [nonprofit organization name]?

2. What do you see as [nonprofit enterprise's] overall strengths/weaknesses? What are your goals for [nonprofit enterprise] over the next year?

REDF:

3. What first comes to mind when you think about REDF? [Probe: strengths, challenges, successes, frustrations]

4. Was [enterprise name] involved in the Roberts Foundation's earlier work on the Homeless Economic Development Fund? If so, what are your impressions of the transition from the Homeless Economic Development Fund to REDF? [Probe: your level of involvement in decision-making, strengths/weaknesses of change, value to your organization]

5. REDF is committed to the Social Venture Capital approach. What is your understanding of the Social Venture Capital model? What is your opinion of this approach? What is your definition of a New Social Entrepreneur? Do you consider your business manager to be a New Social Entrepreneur? Why/why not?

6. As you know, REDF offers six major forms of support to nonprofit enterprises—

   core investments (the $xxx grant you receive from REDF)

   access to other capital

   targeted business assistance

   the venture committee

   the Farber Interns/Fellows program

   Partners-for-Profit; and

It also includes an information management component. We'd like to look a bit more closely at each of these elements. In each case, we'd like to explore three areas: ***the concept*** (is this type of assistance useful to your enterprise); ***the process*** (is the way the support is made available useful to your enterprise); and ***the interpersonal dynamics*** (do you work well with the people providing the support).

First let's look at the core investments. [Probe: What works well/poorly? Level of contact with/support from REDF staff? Who? Opportunity to offer feedback? Relevance/value to your enterprise? Limits to value? REDF staff responsiveness to your needs?] Follow with questions on targeted business assistance, the Farber Fellows, access to other capital, Partners for Profit, information management, and the venture committee.

Organizational Issues:

7. Let's now look at some organizational issues. What are relations like between the three main participants in this effort: the social purpose enterprise, REDF and the nonprofit organization? [Probe: Do the three entities share common goals and priorities? Are there tensions?]

8. Who does your business manager look to for advice? You? REDF staff? Others? Is this a source of tension?

9. Are there any other organizational issues/concerns you'd like to raise? [Probe: Value of meetings, reports, REDF as source of future funding, other REDF requirements (WebTrack, e-mail, web site usage, social cost accounting, special event?)]

Recommendations:

10. Do you have any overall recommendations for strengthening the REDF's work with your organization? Any additional comments/concerns you'd like to make?

Appendix A
The Roberts Enterprise Development Fund Organizations 1997-1998[11]

1) Asian Neighborhood Design, Inc. — San Francisco/Oakland, CA

Asian Neighborhood Design is a nonprofit community development organization providing low-income communities with housing and employment services. A.N.D.'s mission is to advance community development programs and policies that empower, transform, and improve the lives of low-income and disenfranchised individuals and communities.

(415) 593-0423 — **www.andnet.org**

Programs: Housing and community development, architecture and planning, family and youth resources, employment training, business development

Business: Specialty Mill Products furniture and cabinet manufacturing

2) Barrios Unidos — Santa Cruz, CA

Barrios Unidos is a nonprofit community based organization located in downtown Santa Cruz. The strategy of Barrios Unidos is to reduce violence among Latino youth by providing them with alternatives to violence. Barrios Unidos has been working in violence prevention for 17 years and has a solid reputation for providing youth with support and alternatives from the "madness."

(831) 457-8208

Programs: General youth programs, computer lab

Business: BU Productions screen printing

3) Building Opportunities for Self-Sufficiency (BOSS) — Berkeley, CA

For over a quarter of a century, Building Opportunities for Self Sufficiency (BOSS, Inc., formerly known as Berkeley Oakland Support Services) has worked to elevate people out of poverty and homelessness. BOSS is one of the largest players, innovators, and collaborators in the field of homelessness and poverty in the state.

(510) 649-1931

Programs: A comprehensive array of housing services and approaches, unique employment programs and opportunities

Business: BOSS Enterprises Property Improvement

4) CVE, Inc. — San Francisco, CA

CVE, Inc. (Community Vocational Enterprises), since 1986, has been the main employer in San Francisco of people with psychiatric disabilities. CVE combines vocational rehabilitation with its role as an employer in a model program that emphasizes getting people back to work and helping them stay there.

(415) 544-0424 **www.cve.org**

Programs: Assessment, vocational planning, extensive training, and job placement

Businesses: Industrial Maintenance Engineers (Janitorial), CVE Cafes, Clerical Services, Driver/Messenger

5) Golden Gate Community, Inc. San Francisco, CA

Golden Gate Community, Inc. (GGCI) was founded in 1981 by a group of individuals, churches, and organizations that were concerned about the growing homeless population in the Haight-Ashbury/Golden Gate Park area of San Francisco. During the past 15 years the agency has grown to provide services across San Francisco addressing the needs of the poor and the sick of the city.

(415) 552-1700 **www.ggci.org**

Programs: The Bridge for Kids and Camp Bridge (in-home respite child care and summer day camp for children in families affected by HIV/AIDS), community service projects, Oak Street House transitional residence for women and children

Businesses: Ashbury Images screen printing, San Francisco City Stores – Pier 39 and Beach Chalet

6) Goodwill Industries San Francisco/Greater East Bay, CA

Goodwill's mission is to help people with disabilities of disadvantaging conditions become more employable by providing work, skill training, and job placement in the community.

(415) 575-2100

Programs: Retail stores, vocational school, job training, job placement

Business: Goodwill Staffing Services

7) Jobs Consortium Oakland, CA

The Jobs for the Homeless Consortium is a nonprofit organization providing employment services to the homeless and low income populations.

(510) 251-6241

Programs: Vocational counseling, addiction and recovery counseling, disability peer counseling, job preparation workshop, Homeless Learning Center, job development system

Business: RelyAble Choices Employment Services

8) Juma Ventures San Francisco, CA

Juma Ventures is a nonprofit organization that owns and operates small businesses employing at-risk youth. The core work of their organization focuses on economic development,job creation and training, geared specifically toward high-risk youth from low-income Bay Area communities. Juma Ventures' goal is to use business as a vehicle for social change and to help young people from marginalized backgrounds develop the skills, both practical and emotional, to take hold of their lives and succeed.

(415) 247-6580 **www.jumaventures.org**

Programs: Business/work skill development training, emotional intelligence/life skills

Businesses: Ben & Jerry's Ice Cream on Wheels (ICOW), Ben & Jerry's Ice Cream Concession at 3Com Park, Ben & Jerry's Scoop Shops on Castro and Chestnut

9) Rubicon Programs Richmond, CA

Rubicon Programs mission is to provide a comprehensive and integrated continuum of social and rehabilitative services for people who have barriers preventing them from functioning independently and fully participating in the economic and social life of our community.

(510) 235-1516 **www.rubiconpgms.org**

Programs: Independent living program, vocational program, mental health services, housing development

Businesses: Rubicon Buildings & Grounds, Rubicon Bakery, Rubicon HomeCare Consortium

10) Youth Industry San Francisco, CA

Youth Industry is a nonprofit organization providing vocational training and job placement for San Francisco homeless, transitional, and at-risk youth, ages 15-22. Youth Industry was founded in 1993 and operates out of three warehouses in the Mission District, furnishing a safe and supportive environment, teaching youth marketable skills through the creation, development and operation of small businesses.

(415) 206-9945 **www.youthindustry.org**

Programs: Life skills classes, Artists Mentorship Program in ceramics, multi-media, music, photography, and furniture painting

Businesses: YI Recycled Merchandise, Nu2u thrift store, Pedal Revolution bicycle repair shop, Einstein's Cafe