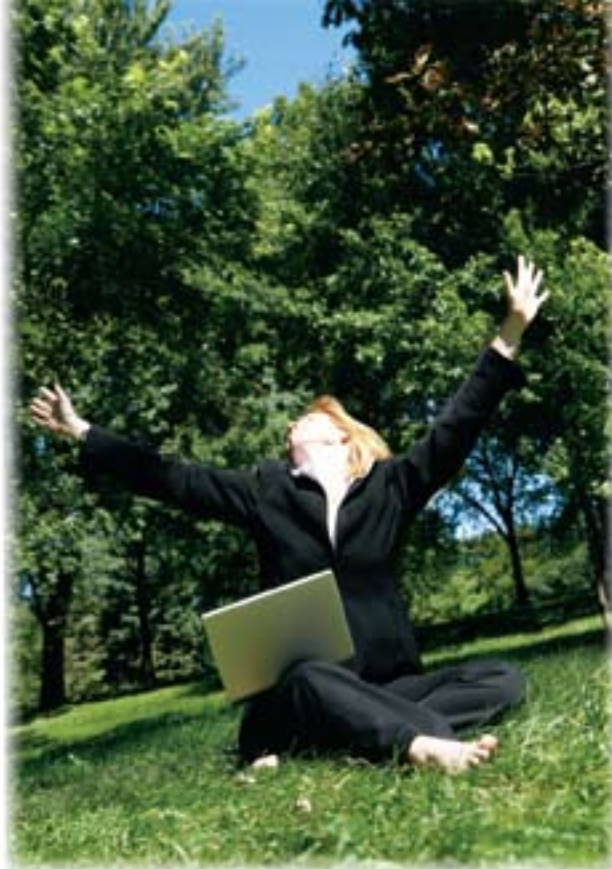


The Joys of Risk



An expert on creative grantmaking shares lessons he's learned about embracing risk.

By Bill Somerville with Fred Setterberg

Philanthropy thrives on risk. As the executive director of the Philanthropy Ventures Foundation, I believe it's risk that fuels our grantmaking engines. And yet risk terrifies most foundation executives and boards.

That's because one possible outcome of risk-taking is failure. And more than most institutions, foundations dread acknowledging their shortcomings.

I'm not advocating risk for its own sake. When grantmakers embrace risk, it's because they perceive an opportunity to make changes that would otherwise prove impossible. Risk-taking in philanthropy is chiefly a matter of summoning the courage to question old ways and try something new.

Putting the "Venture" into Venture Philanthropy

"Venture philanthropy" is a term I've been using for more than 20 years. What I'm really talking about is grantmaking characterized by

- creative ideas
- potential for high-yield impact
- thorough research and abiding relationships.

"Chance favors the trained mind."

—Louis Pasteur

Let me express the essence of such philanthropy in a single word: *Trust*. Trust is the indispensable factor in making philanthropic risk acceptable. It's what provides balance and confidence when outcomes are uncertain.

Where does trust come from? Experience. Experience with applicant organizations that ensures knowledge of their aims and accomplishments. And how do you gather experience? You get out of your office and into the field.

The main reason philanthropists prove so timid in their grantmaking is they lack the basis for wisely calculating risk. They fail to cultivate deep, varied, and continuing experience in the field.

Trust, derived of experience with outstanding nonprofit leaders: These are the elements of philan-

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thropy at its most vital and creative.

Risks I'm Glad I've Taken

I know when I'm taking a risk. I feel slightly on edge, a bit uneasy. I'm aware I've made a decision to support an unproven project, and as a result, our foundation could fall flat on its face. It's not a feeling I relish. But I realize it comes with the territory.

I also know when I'm not taking enough risks. I feel *too* comfortable. That's when I know it's time to stick my neck out.

What does risk-taking look like at Philanthropic Ventures Foundation (PVF)? Here are some grants we made that most foundations wouldn't have touched:

- PVF awarded a Latina journalist \$10,000 to use at her discretion to benefit Oakland's Spanish-speaking community. The funds ended up supporting a variety of opportunities: a field trip for a youth leadership group; emergency aid for two immigrants who had become victims of street crime; a Spanish-language training program to introduce nonprofits to local grantmakers—a program now offered regularly by our local Foundation Center.

“When success is assured, an organization becomes inert.”

- PVF made two grants of \$17,000 to cover the salaries of two immigrant mothers so that they could help other immigrant parents understand the challenges their children faced in school. Neither woman had formal training for their positions. Without PVF funding, the schools would never have taken the chance of hiring them. Yet over time, the benefits accrued to the students, families, teachers, and the two women have proved enormous. Taking this risk also pointed PVF in a useful new direction: To date, we’ve made over \$100,000 in similar grants.

What led us to assume the risks embedded in these grants?

- I knew the community and the problems people routinely faced there.

- I trusted the people recommending support.

- I met with the individuals directly involved with the project before funding them, and I had a good feeling about each one.

In other words, I relied on both my head and my heart. My gut feelings, my intuition, played a key role in approving each grant.

Over the years, I’ve come to think of intuition as an indispensable tool. Intuition is the voice that emerges from a lifetime of learning, telling us Yes or No long before we can state precisely why.

We ignore our intuition at our own peril. Without well-founded trust in our own instincts, we lapse into paralysis.

Are Grants to Individuals Illegal?

I frequently talk with other foundation officers who inform me that PVF’s grantmaking to individuals is a breach in federal regulations and poses a grave risk of censure from the IRS. Foundations, they explain, cannot make grants to individuals.

They’re wrong. Federal law states that grants be used exclusively for charitable purposes. Over the years,

the concept of charitable purpose has morphed into the 501(c)(3) tax-exempt nonprofit organization. In the eyes of most foundations, they’re synonymous.

Yet charitable purpose and charitable organizations aren’t the same. Individuals engaged in charitable work can also qualify for foundation support. Consider these grants we made to individuals:

- A social worker called me about a 16-year-old girl in foster care who had located a part-time job and enrolled in summer school. But she didn’t have money for transportation. PVF paid for her bus pass.

- A clergyman told me about a young mother and daughter in a battered-women’s shelter. They feared leaving the shelter for even a few hours. We paid for a cell phone that kept them in contact and provided a link to the police.

- A sculptor approached us for support on a public art project. We paid him a stipend for the time required to complete the installation.

All three grants depended on personal recommendations from outside our staff. Nonprofit agencies helped in their application, oversight, and evaluation.

How did our risk-taking with individuals turn out? The teenaged girl finished her summer courses, kept her job, and went on to graduate. The mother and daughter remained safe, relocated to another community, and started new lives free from violence and intimidation. And the sculptor—well...he never finished his project. He took the money and ran—the worst possible outcome.

Imagine if we could consult an annual *Big Book of Failure*.

It happens. Not often. But some risky ventures unravel. It’s better to face this hard truth from the start.

Of course, I did learn something valuable from our experience with the disappearing sculptor. The next

time I fund a public art project—and there *will* be a next time—I’ll establish a clearer set of benchmarks, meting out funds in small amounts, thereby helping the artist pass through the frustrations of creation with the lure of the next payment.

It will still be a risk. But risk is something foundations are uniquely equipped to undertake. I believe it’s irresponsible to do otherwise. If foundations can’t take risks, nobody can.

Failure and the Fear Factor

On the wall above my desk, I’ve pinned a note card reading: “When success is assured, an organization becomes inert. It lacks the ability to become a self-correcting institution.” In other words: We learn from our mistakes.

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Yet in grantmaking, we can pretend we don’t make mistakes. Year after year, we can make middling, unimaginative grants, budging the world not one iota closer to a better place, and yet we don’t go out of business, lose our jobs, or sacrifice our position and power. Nobody can compel us to learn from our failures unless we want to.

But isn’t it as important to know what *doesn’t* work as what does? Imagine if we could consult an annual *Big Book of Failure*, describing the pitfalls of various grantmaking strategies. Think of the time, energy, and money we would save.

Personally, I’d like to see the Council of Foundations cap off its annual meetings with a session trumpeting our collective shortcomings. I’m looking forward to the time when foundations jazz up their annual reports with “This Year’s Three Biggest Mistakes.”

Bill Hewlett, co-founder of Hewlett-Packard, used to tell his engineers that if they didn’t produce

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any failures, they weren't doing their job right. That's a lesson we should all take to heart.

Final Requirement for Risk-Taking: Self-Knowledge

When I feel something strongly, you can read all about it on my face. I'm particularly emotional about philanthropy. Sometimes, I'll find myself choking up in the midst of a public speech about one of our projects. But that's me—neither good or bad, but simply the way I'm constructed.

The important thing is that I know enough about myself to realize that my emotional responses accompany me into every venture. That's particularly true when it comes to taking risks. If I didn't factor in my emotions, I might not recognize that my strong feelings could make people uneasy and cut off communication. Or I might fall prey to "rescue funding"—tossing a financial line to a charitable ship that's destined to sink.

I don't try to tamp down my feelings or attempt to be somebody else. I know it would prove futile. I am who I am: virtues, vices, and everything in between.

Without well-founded trust in our own instincts, we lapse into paralysis.

So let me offer one final rule for philanthropic risk-taking. *Know thyself*—so that you can have a clear vision of how to be helpful in changing the rest of the world. That's one of the soundest ways of minimizing, or at least, managing risk. ■

Bill Somerville is a nationally recognized expert on creative grantmaking. He has consulted at over 350 community foundations in the United States, Canada, and the U.K. on innovative grantmaking and effective operations. In 1991 he founded Philanthropic Ventures Foundation (www.venturesfoundation.org), which specializes in responsive approaches to grantmaking, such as "paperless" discretionary grants and grants with a 48-hour turnaround. Fred Setterberg is the co-author of several books about the non-profit sector and philanthropy, including Grantmaking Basics with Colburn Wilbur and Barbara Kibbe and Beyond Profit with Kary Schulman. This article is excerpted from Grassroots Philanthropy: Field Notes of a Maverick Funder (Heyday Books, www.heydaybooks.com, and Amazon.com).

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