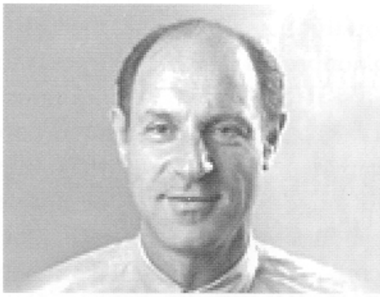
Crossing from the Private Sector

An Interview with Michael Bailin

Michael Bailin was appointed president of The Edna McConnell Clark Foundation in February 1996. Before coming to the foundation, he had been president and chief executive officer of Public/Private Ventures (P/PV), a nationally recognized nonprofit organization dedicated to improving opportunities for young people in poor communities. Prior to founding and joining P/PV, Bailin worked as a consultant to the Ford Foundation and was the deputy director and counsel of the South Seaport Museum in New York City.



Michael Bailin

Under Bailin's direction, the Foundation has been undergoing a major shift the last several years designed to concentrate the bulk of its resources on efforts to improve the quality of programs and services available in the non-school hours for young people living in low-income communities. According to Bailin, the Foundation has chosen to address this critical need for improved services by focusing on strengthening individual nonprofit organizations and the field of youth development, a grantmaking approach it calls "Institution and Field Building." During the first stage of this evolving effort, the Foundation is investing in supporting organizational growth and infrastructure improvements.

Although this work is still in its early stages, Bailin agreed to discuss some preliminary lessons he, his colleagues and first-round grantees are learning.

Entrepreneurs Foundation (EF): Based on your extensive not-for-profit experience, what skills do you think people from the private sector, especially venture capitalists who become involved in philanthropy have to offer the not-for-profit sector? And what advice can you give people from the private sector who are seeking to "cross over"?

Michael Bailin (MB): We believe there are lots of ideas, techniques and good thinking from the private-sector and venture capitalist world that ought to cross-over and be applied to the world of not-for-profits.

We believe that people who work in the private sector generally have more practiced skills and a keener understanding for management than those who work in nonprofits. And while there is no question that not-for-profit organizations can benefit from exposure to the kind of strategic thinking and disciplined approach to management common to the for-profit-sector, these skills and techniques can't be imported wholesale without some adaptation to the different ways the nonprofit world operates.

Venture capitalists-turned-philanthropists – no matter how well-intended or caring they might be – have to take time to get to know the nonprofit sector before they get too deeply involved. If they don't, they run the risk of coming on too strong, too fast. When that happens, you can do more than scare away organizations you want to help; you'll make them stiffen up, bristle and reject a whole lot of ideas that might otherwise be tremendously valuable for them.

Another important thing to keep in mind is the different pace at which things occur in most not-for-profit organizations. The not-for-profit world is focused on social change and human improvement – those things aren't as straightforward as manufacturing a better product or improving a new technology.

Not-for-profits deal with complicated community issues and people dynamics, with problems that are slow to change and more resistant to new ideas. Venture capitalists, on the other hand, know how to move markets very quickly. Unfortunately, no one has yet figured out how to intervene and move things along as quickly or as efficiently in the not-for-profit sector.

Initial experiences with nonprofits may be especially frustrating to people who are accustomed to seeing things move when they apply their money and their skills in the right places. Also, venture capitalists may need to stick with the work longer than they might be used to doing and not be so quick to move onto

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something that looks more productive. That's not the way it's done in the world of philanthropy and not-for-profits.

So what's my advice? Know first what you are getting into. And, second be willing to give it the time it's going to take.

EF: What are some of the other ways you think a venture capitalist mind-set can help nonprofits be more successful?

MB: I think venture capitalists can contribute significantly in helping to develop capital markets for the nonprofit sector. Not-for-profits can't simply go to banks for money – especially money to invest in their core operations. Instead, they are forced to run around to foundations with tin cups promising, "What we're doing squares with what you want to do." In return, foundations often respond by saying "Maybe we'll put money into your project but if we do, then you'll need to do X,Y, and Z."

In the for-profit world, venture capitalists don't fund a business enterprise piecemeal; they put money into an organization to see it grow. That's largely missing in our world, and why I say we need to create capital markets that respond to good social investment opportunities rather than this very categorical kind of government and foundation funding.

EF: What do you consider the ideal nonprofit partner for the Edna McConnell Clark Foundation? What do you look for in trying to identify potential grantees?

MB: First of all, we want to work with not-for-profit organizations that are making a positive difference in the lives of kids. Then we look for those willing and able to focus on management issues. Most nonprofits are so mission-driven and cash-starved that they put all their day-to-day energy and resources into the program activities they think will produce the results they are aiming for. Unfortunately that's rarely enough.

To be both effective and to grow, an organization also needs to pay significant attention to its infrastructure needs and must build the capacity to get the work done. Good organizations need strong leadership, adequate depth of management, sound financial planning, and performance tracking systems – just to name a few things.

Nonprofit organizations also need to be willing to ask themselves – and be able to tell – if they are achieving their goals and hitting their targets, and that implies the ability to track, monitor and assess performance. Armed with this kind of information, they can make timely operational adjustments. Organizations that are either already addressing these needs or – more frequently the case – that show willingness to do so are the ones we want to work with.

Another key criterion for us is accountability. We want to work with organizations that are willing to put together a business plan that sketches out their future growth, and lays out the steps to be taken, and has built in performance benchmarks that they are willing to be held accountable for achieving.

Grants from our Foundation give nonprofit organizations a chance to step back, get clear on what they need to do, and then do it, without having to spend all their time scurrying around scratching for the next quarter's revenue.

EF: You provide a substantial amount of money – about $250,000 at the point you tell your grantees to begin developing their business plans, a process that can take from six to ten months to complete. I also understand the organizations are told that if they create a thoughtful, sound and well-crafted plan, there's a strong likelihood of a significant implementation investment afterwards. Please explain this process.

MB: I should say that before we get to that stage of making an initial $250,000 investment we undertake our own due diligence to determine whether the organization is right for an investment from us, based on the criteria I described a moment ago. We'll spend a lot of time studying the organization's program model, leadership and management; financial and operational strengths; and internal performance measurement systems. In addition, we make sure that our way of doing business and the organization's are compatible and that we'll be able to work well with each other. Only if we're satisfied with what we find through this process do we make the $250,000 grant and move to business planning.

The business plan, which is developed over the next several months, with help from outside experts in organizational development, nonprofit management and evaluation, covers all aspects of the work that needs to take place – from strengthening programs and internal operations, to enhancement of management information systems, to boosting fund-raising capabilities and other essential activities.

Business planning also introduces the organization to some concepts more familiar to a for-profit business, but just as relevant to its own work: how to forecast costs and revenues under different assumptions, identifying strengths and weaknesses in current operations, gauging trends in the external environment and how to adapt to them, and how to achieve productivity gains and maintain quality service.

Most important of all, this process allows the organization to determine its priorities – nothing is imposed on it — and to develop the plan for achieving its own goals and figuring out how to measure performance on an ongoing basis to ensure it is hitting its targets.

The $250,000 we commit to while this work is going on is our way of acknowledging the time, effort and drain on staff that is required for the organization to complete the business plan. It's also a down payment of sorts to demonstrate our confidence in the organization and its work. I should also note that this money can be spent in any way the organization chooses, although usually a portion goes to pay for staff time to take on the business planning activities.

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The final business – or growth – plan, including performance objectives and measures, provides the basis for structuring the Foundation's subsequent and much more substantial investment in the organization.

It's worth noting, too, that in every case that we've helped organizations to develop business plans, they have found the experience ultimately to be truly edifying and exhilarating. I'm not saying it has ever been easy. In fact, just about all of the groups we've worked with so far were ready to throw in the towel part way through. But when they finally had their finished product, they felt enormously proud and knew the effort was worthwhile.

EF: How important is it to establish a high level of trust between your organization and the grantee?

MB: The importance of trust in funder-grantee relationships cannot be overstated. And given the real power imbalance that exists between funders and grantees, it's understandable if a grantee initially approaches this kind of relationship somewhat warily.

That's why we are willing to make an upfront investment of $250,000 before the start of business planning. As I said earlier, we like to think of it as a down payment toward a larger grant in the future. That act alone helps build confidence and reflects the trust we have in them even before they tackle the onerous business planning process. For most, this is a new kind of encounter with a funder. It demonstratively and manifestly expresses our belief in and commitment to them with dollars in their hand.

Additionally, you must completely respect a grantee's mission and its approach. We tell our grantees that we selected them because we believe we can better achieve our own mission if they achieve theirs. We tell them unequivocally that we're going to take a risk along with them by publicly linking our success to their own. If they can understand and

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believe that, they can then also appreciate the trust and faith we're showing in their ability to deliver.

EF: Is it also fair to say that contracting an outside firm—in your case, The Bridgespan Group—to help not-for-profits develop their business plans can ease potential tensions or conflicts between the nonprofit and funder?

MB: Absolutely. It helps protects the grantee, our investment partner, from feeling like it has to bend to our will. Instead, the organization gets the best possible independent thinking to help guide the creation of a plan that matches its long-term vision.

EF: You are on record as saying the Foundation will work to assure the sustainability of the organization you invest in beyond the term of the grant you make to help implement its growth plan. Describe your approach to exit strategies. What conditions will need to be in place to enable a successful exit?

MB: From the beginning we will tell our grantees that we are looking to exit from funding them at a defined point in the future. After acknowledging that from the get-go, we focus on that, plan for that, and take early steps that recognize that our exit is going to happen. We require organizations to think about and work on a realistic funding strategy as part of their business plans. It is a serious and concrete way to deal with the sustainability issue from the beginning. We will also help to assemble other resources for them. We try to find other funders, other foundations, and venture philanthropists to invest with us. This increases their contacts and broadens their resources.

We also plan to cluster our grants around a common theme. Purposefully selecting organizations that have something in common provides opportunities for them to learn from each other, to share results and thus makes the potential sum greater than our individual grants. Also, having several grantees that are working on common needs in their respective communities helps focus attention on what they are doing collectively. We think this will help position them, individually and as a group, to gain access to other funding support.

> Nonprofit organizations also need to be willing to ask themselves - and be able to tell - if they are achieving their goals and hitting their targets, and that implies the ability to track, monitor and assess performance. Armed with this kind of information, they can make timely operational adjustments.

EF: What lessons can foundations considering the transition to an "institution and field building" approach learn from your experience?

MB: We certainly don't have all the answers yet because we're still at the early stages of this new work – we've made less than a half-dozen of these institution and field building grants. But there are some things we can now share about what it's been like for us to undertake such a major transition.

The most important is that you have to be willing to change the way you do business. And, for us, at the top of the list is adopting the belief and acting on the proposition that the grantee comes first – and that our role is to serve its needs. Next it's essential to gain the support of the board of trustees and the buy-in for this way of working from everyone inside your organization. That last requirement – shifting our collective attitudes, approach and skills during the conversion – reflects that this transition we are undergoing is as much about changing our internal culture and coming to some shared understanding about our role in the not-for-profit sector as it as about adopting new business practices.

We expect to learn a lot more over the course of the next several years, and we're certain that these lessons will help us become a more effective grantmaker, especially measured in terms of the value our investments add to the nonprofit sector. And we intend to share everything we learn with others interested in what we're trying to do.