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THE VALUE ADDED APPROACH OF ENTREPRENEURIAL PHILANTHROPY

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Abstract

Entrepreneurs add value to society beyond the wealth creation process and the creation of new products and services, through their engagement in philanthropy. The increasing prominence of high net worth entrepreneurs engaging in philanthropy, whose focus is typically on global social problems, is worthy of scholarly attention. Accurate reflections of the current practice of entrepreneurial philanthropy are required, in order for researchers to develop knowledge and understand the phenomenon of entrepreneurial philanthropy. Entrepreneurial philanthropy has emerged from practices of entrepreneurship, and the methods and practices associated with venture capital investment. Any analysis of entrepreneurial philanthropy requires careful consideration of the extent to which the practices and behaviours common to entrepreneurship can easily transfer over to the field of philanthropy.

Introduction

This research focuses on the philanthropic activities of high net worth entrepreneurs and the practice of entrepreneurship to how they undertake such activities. The paper progresses our understanding the practice of entrepreneurial philanthropy, a form of philanthropy that is heavily influenced by practices from entrepreneurship and in particular the sub sector of venture capital investment. The paper illustrates the transferability of practices from the domain of entrepreneurship to philanthropy and contributes to the entrepreneurship discourse, by identifying and discussing the specific combination of venture capital practices and entrepreneurial competencies that are applied in entrepreneurial philanthropy. Currently little empirical evidence exists of how entrepreneurial philanthropists conduct their philanthropic investments. Furthermore, there has been little consideration in the entrepreneurship discourse as to the extent to which the practices and
common to entrepreneurship transfer over into the philanthropic activities of entrepreneurs. As such the paper presents new knowledge and develops our understanding of the influence of on contemporary philanthropy.

The cross over from entrepreneurship to philanthropy is becoming a common feature in the careers of successful entrepreneurs who amass significant levels of personal wealth from their entrepreneurial activities. This new wave of entrepreneurs turned philanthropists harness their available resources—personal wealth, knowledge and expertise, contacts and networks, and their entrepreneurial competencies to address widespread, yet complex, social problems. Entrepreneurs apply multiple forms of capital in their philanthropy, directed at finding and exercising solutions to pressing socio-economic problems. The different types of capital being applied include economic capital (finance), social capital (contacts and networks), cultural capital (knowledge and expertise) and symbolic capital (reputation and status) as relevant to Capital Theory (Bourdieu, 1986). Critically, the ownership and application of such capital forms is married with an entrepreneurial (behavioural) approach, mindset and drive too. The combination of this blend of resources and the entrepreneurial approach elevates the entrepreneur to a position of considerable power referred to as ‘hyperagency’ (Schervish, 2003, 2005). In their philanthropy, entrepreneurs seek to be a producer of social change by addressing socio-economic problems and their capacity to do so is related to their ability to leverage resources from other influential parties in their philanthropy. The subsequent accumulated wealth (in its broadest sense) is an important and critical factor of the ability of the entrepreneurial philanthropist to become a producer of social change. As such, the entrepreneur’s ability to network with other influential individuals is a factor that becomes important in their philanthropic activities and the outcomes that they seek to produce as they target complex social and economic problems.

The new wave of entrepreneurs turned philanthropists are typically focussing on global issues, targeting their philanthropy at a range of factors, which contribute to global poverty and include inaccessible and/or substandard health care in developing countries and education systems that are either accessible to a minority and/or lack in quality (Dees, 2008). Across this spectrum entrepreneurs are focussing on a variety of problems that contribute to stagnant micro economic environments in developing countries; including a lack of access to finance, poor infrastructure and closed/restricted routes to market (Brainard, 2008). Typically, the focus of philanthropy falls on developing countries (De Lorenzo, 2007). A common denominator in the entrepreneurs’ approach to philanthropy is the adoption of a model of philanthropy that is heavily influenced by the venture capital model of investment and is often referred to as venture philanthropy. However, the paper suggests that the influence of venture capital investment principals is not restricted to venture philanthropy, but has a bearing on other contemporary forms of philanthropy that are not specifically labelled as ‘venture philanthropy’. The paper suggests that current discourse on venture philanthropy (Lettis, 1997; Pepin, 2005) does not consider the importance of entrepreneurial competencies to undertaking a model of venture philanthropy.

Despite popular and media interest, there has been little serious scholarly effort to understand contemporary approaches of philanthropy, nor to the influence on contemporary philanthropy that the domain of entrepreneurship has within this context. Moreover, despite the efforts and interests of a few scholars (Acs, 2002; 2007; Dees, 2008; Handy, 2006; Schervish, 2003; 2005), neither has research on philanthropy become part of mainstream entrepreneurship discourse, despite its obvious links to the wealth creation process. The paper advances efforts to understand the influence of practices and behaviours common to entrepreneurship on contemporary forms of philanthropy.

The exploratory study advances efforts to understand the practice of entrepreneurial philanthropy by considering the range of capitals that are applied in this form of philanthropy, and importantly considers the extent of engagement and interaction between the philanthropist and investee the philanthropic investment process. Interestingly, the paper exposes the high level of interaction
engagement between philanthropist and potential investee during the pre-investment stage as being distinctive and particular to entrepreneurial philanthropy. The result of this intensive pre-investment stage relationship between philanthropist and potential investee is considerable value being added to the potential investee organisation, in the form of strategic and process oriented knowledge. The transfer of such knowledge acts to shape and support the ambition of the organisation’s leadership (investee) to strive for the big win that is desired by the entrepreneurial philanthropist. That is, to create and deliver solutions to significant social problems. The solutions being championed have impact beyond the specific philanthropic intervention (through scale-ability and replication). Typically, solutions proffered by entrepreneurial philanthropists often include the fostering of private enterprise (De Lorenzo, 2007).

This study makes three main contributions. Firstly, the study details the landscape of entrepreneurial philanthropy and considers the evolving nature of this form of philanthropy from Andrew Carnegie to Bill Gates. Secondly, the study presents a model of entrepreneurial philanthropy, which draws significantly from venture capital perspectives and from the drivers (opportunity recognition, creativity and accessing resources) and mindset that are fundamental to the process of entrepreneurship. This section discusses the transferability of practices from the domain of entrepreneurship to philanthropy and contributes to our understanding of the practice of contemporary entrepreneurial philanthropy. Finally, the paper develops our understanding of the critical role of entrepreneurial competencies to entrepreneurial philanthropy and discusses the extensive value that is added by entrepreneurial philanthropists during the pre-investment stage to the investee. This strengthens the opportunity for both parties to maximise the impact of their joint social intervention. The combined learning’s also have value beyond the field of philanthropy when considered in the process of venture capital investment.

The paper proceeds by discussing the landscape of entrepreneurial philanthropy, and will follow by discussing the practices adopted by entrepreneurial philanthropists. This will be developed further through the presentation of a model of entrepreneurial philanthropy. The discussion will proceed by considering how entrepreneurial philanthropy relates to the process of venture capital. Importantly, the paper illustrates how the principals of venture capital investment are present and highly influential to entrepreneurial philanthropy. Finally, the conclusions that are presented make suggestions for future orientations for research into entrepreneurial philanthropy in the field of entrepreneurship.

**The Landscape of Entrepreneurial Philanthropy**

Philanthropy has evolved over the last century with the introduction of new forms of philanthropy and the development of new functions of the traditional foundation (Fleishman, 2007). The introduction of community foundations centred on pooled resources, and donor advised funds extending to religious, racial and ethnic communities has altered the landscape of philanthropy (Fleishman, 2007). Similarly, the introduction of supporting organisations to foundations which have similar functions to donor advised funds has changed how philanthropy is undertaken. Similarly, new intermediary service providers which offer wealth management and philanthropic advice has impacted on how high net worth individuals approach their philanthropic activities. Likewise corporate philanthropy has also imprinted on the landscape of contemporary philanthropy, by distributing corporate donations (usually linked to corporate profits) through approved grant schemes to corporately agreed initiatives. These changes suggest that the power of the collective has grown within the field of contemporary philanthropy. This is in contrast to the prominent role of private individuals and their foundations historically within the U.S and the UK (Fleishman, 2007).

**Historic Entrepreneurs as Philanthropists**

Historically, there has been a strong tradition of the active participation of entrepreneurs in giving and philanthropy. Many prominent historical business figures, such as Andrew Carnegie and John D. Rockefeller, have utilised their vast levels of personal wealth to affect social change. Similarly, the U.K. enlightened entrepreneurs of the Victorian era (including Thomas Holloway, Titus
Salt, George Palmer and Jeremiah Colman to name just a few) are renowned for their charitable efforts to alleviate the ills of society (largely centred on Christian charitable values) (Bradley, 1987). Sir Titus Salt achieved this in the creation of Saltaire, a self-contained village for his workers. Similarly, William Hesketh Lever created Port Sunlight. Both Salt and Lever chose to focus on improving the working and private lives of their employees (Bradley, 1987). Their philanthropic activities can be considered as being contextual to their personal and business lives and their surroundings.

However, Andrew Carnegie stands apart from the forementioned enlightened entrepreneurs in his philanthropic activities, which were firmly grounded on the encouragement and facilitation of self-help. Carnegie firmly believed in helping others to help themselves, as opposed to creating a culture of dependency on charitable handouts (Bradley, 1987, Nasaw, 2006). Carnegie funded the creation of over 2,500 public libraries in the U.S and U.K, as well as making substantial grants to education and research through grant-making trusts (which continue to re-distribute his wealth today). Importantly, Carnegie’s funding of the creation of libraries did not extend to funding the maintenance of the library buildings. Instead, this became the responsibility of local government (Bradley, 1987). This approach is visible in the partnership approach favoured by contemporary entrepreneurs in their philanthropic activities.

Historically, entrepreneurs have added value beyond the wealth creation process over time and through their charitable giving and philanthropic activities. Andrew Carnegie stands out as the original entrepreneurial philanthropist in his desire to empower and help individuals to help themselves through his particular practice of philanthropy. Today’s entrepreneurial philanthropists seek to address social problems through the empowerment of individuals and communities and the strengthening of private enterprise. Importantly, the centrality of empowerment to contemporary entrepreneurial philanthropy can be traced back to the philanthropic activities of Andrew Carnegie. Furthermore, Carnegie’s belief that a man who dies rich dies disgraced has become the philosophy of numerous high profile entrepreneurial philanthropists who publicly proclaim their intention to redistribute their wealth in their lifetime (Bill Gates and Sir Tom Hunter to name a few). However, one differentiating factor in the philanthropic activities of today’s entrepreneurial philanthropists compared to those of the Victorian era is their focus on international development and more specifically on poverty reduction as is prevalent in the findings of this research.

Contemporary Entrepreneurs as Philanthropists

There is a growing trend for successful entrepreneurs to develop their own philanthropic agenda, with an international dimension, and there is no shortage of social and economic problems in global society to address. The increase in engagement in philanthropy can be related to the increase in wealth creation, which has largely characterised the last thirty years. This has been facilitated by innovative product development, strong stock markets, the advancement of technology and the development of a global marketplace (Handy, 2006; Zhara, 2009).

Entrepreneurs synonymous with entrepreneurial philanthropy include Bill Gates (Microsoft), Sergey Brinn and Larry Paige (Google), Jeff Skoll (eBay) and Sir Tom Hunter (West Coast Capital). These individuals have each created a Foundation or other formal organisation through which to conduct their philanthropic activities; (The Bill and Melinda Gates Foundation, Google.org (a for-profit entity), Skoll Foundation and the Hunter Foundation). Importantly, the entrepreneurs adopt an entrepreneurial approach to their philanthropic activities. Their philanthropic activities can be considered as an extension of their own individual entrepreneurial careers, used as a measure of what can be achieved in their philanthropic endeavours.

For entrepreneurial philanthropists the redistribution of wealth does not amount to simply giving wealth as has been the case historically through bequests and charitable giving (Bradley, 1987). Entrepreneurial philanthropy is about the active redistribution of wealth through harnessing the sum resources accessible to the entrepreneur. Importantly, resources move beyond purely finance (economic capital). Access to and ownership of multiple forms of capital is critical to the power base of entrepreneurial philanthropy. In a similar way to the thinking of Bourdieu (1988), who argues that the power elite within French society own multiple forms of capital including symbolic (reputation), human (skills), cultural (knowledge) and social capital (contacts and networks); that strengthens their dominant position in society. The resource pool that entrepreneurial philanthropists have at their disposal to apply to their philanthropy is significant. Power results from the individual or collective’s
command over resources (Clegg, 2006), as such entrepreneurial philanthropists are powerful at an individual and collective level through the partnerships they form. Importantly, the marriage of significant resources with the entrepreneurial mindset and approach strengthens the capacity of entrepreneurial philanthropists to be creators and deliverers of innovative solutions to pressing social problems (Brainard, 2008).

The Role of Social Entrepreneurs and Venture Capital in Entrepreneurial Philanthropy

Importantly, social entrepreneurs are valuable contributors to the mix of resources that are required by entrepreneurial philanthropists to pursue social change. Specifically, the capacity of the social entrepreneur as a creator, innovator and deliverer of products and services that meet a social need is a significant part of entrepreneurial philanthropy (Dees, 2008). Considering this, the development of partnerships between social entrepreneurs and entrepreneurial philanthropists will most likely become more prominent in the future (Dees, 2008).

Partnerships between entrepreneurial philanthropists and social entrepreneurs (which involve philanthropic investment) shares similarities with the characteristics of venture capital investment (although the pursued return on investment is primarily a social return, rather than a purely economic return). Social return represents a return on investment that benefits society and not the individual philanthropist. Recently, the venture capital discourse has sought to provide some insight into the social focus of venture capital investment in the work of Rubin (2009) on community developmental venture capital and social venture capital. Rubin (2009) outlines the social objectives of these particular subsectors of venture capital investment (job creation, economic growth, the production of socially beneficial products and the application of progressive management techniques that benefit and develop employees). There are distinct similarities in the social objectives of these subsectors of venture capital with the social and economic objectives of entrepreneurial philanthropy, but they are distinctly different in return. The targeted return in venture capital is monetary (though it has clear social benefits). The targeted return of entrepreneurial philanthropy is a social return, not an individual monetary return to the philanthropist. Further similarities between venture capital investment and entrepreneurial philanthropy investment relate to the typically high risk environment that these two forms of investment are typically oriented at.

Entrepreneurial philanthropists are active in an environment that can be considered as being complex, volatile and fragile. The continent of Africa is increasingly becoming a focal point for entrepreneurial philanthropy. The aid attempts by western governments and other official development assistance organisations have not addressed the problems of this continent. Despite the trillions of dollars (US) of development aid directed at Africa (Kharas, 2008), civil war is rife, the Aids disease continues to be undertreated, political corruption and the illegal siphoning off of development aid have resulted in many African countries lacking in the basic provision of education, sanitation and healthcare. This environment provides significant opportunities for the entrepreneurial philanthropist to engage in the philanthropic investment of creative, innovative and risk aware solutions to socio-economic problems. Philanthropic investment is conducted through a model of entrepreneurial philanthropy that bears risk and requires a significant multitude of resources. The purpose of this paper is to explore the practice of entrepreneurial philanthropy, using case studies of five leading entrepreneurial philanthropists whose practice of philanthropic activities is deeply embedded in their practice of entrepreneurship. The next sections of the paper describe the research methodology and approach of the study, which is followed by the key findings of the study.

Research Methodology

This study follows a case study research strategy (Eisenhardt, 1989; Yin, 2003) with the development of five case studies of entrepreneurial philanthropists and their formal vehicle of philanthropy (the foundation). The foundations are all located within the U.K, although the focus of their philanthropic activities is international, and primarily concentrated in the African continent. The founders, who the focus of each case study, are all high net worth entrepreneurs, whose personal wealth ranges £60 million to £1 Billion, and who have embarked on philanthropic activities by creating a philanthropic foundation. Table one provides a background overview of the five philanthropists. Criteria for sample selection included the formal vehicle having existed for three years to ensure that timeline of philanthropic engagement is accessible.
Given the elite nature of the high net worth entrepreneurs, gatekeepers were used to broker introductions and negotiate access to each individual. In particular, one gatekeeper negotiated access to three out of the five case study subjects. Subsequently, one of these three case study subjects negotiated access to a fourth case study subject, and an independent gatekeeper was used to negotiate access to a fifth case study. Importantly some of the industry experts who contributed to the ad-hoc interviews were accessed through one of the case studies.

The process of negotiating access to such elite individuals took on a snow-ball effect and was to an extent serendipitous of the individual gatekeeper who in the first instance agreed to act as a gatekeeper to these elite individuals. The process of brokering and negotiating access took place over a five month period. The sample of case studies was dependent on the use of strategic gatekeepers and who these individuals could facilitate access to that met the sample criteria. All subjects have been made anonymous within the research study.

The development of the case studies is based on primary and secondary research. The primary research undertaken includes in-depth semi structured interviews with the entrepreneurial philanthropist, the chief executive of their foundation and when appropriate other prominent foundation employees, as well as, two recipients of philanthropic investment per case (with the exception of one case where only one recipient was accessible). A total of 24 interviews were undertaken across the five case studies, most of which were face to face interviews. With the exception of three interviews, which were conducted by telephone where interviewees’ geographic location entailed that a face to face meeting was not feasible. Access to recipients within each case study was negotiated with the entrepreneurial philanthropist, and brokered by the chief executive of their respective foundation. The inclusion of the recipient perspective in each case study is important to be able to view the date from multiple perspectives, but particularly so to capture the experience of recipient investees entwined in this particular type of philanthropic investment. Methodologically, the purpose of conducting multiple interviews in each case is to have multiple sources of primary information per case study and to corroborate the data collected from the entrepreneurial philanthropists so to minimise resource bias. This enables each case study to be viewed critically from multiple perspectives (Denzin 2005; Miles, 1994).

Each interview was recorded and transcribed verbatim, with the duration of each interview varying from one hour to three and a half hours. After transcription, the files were exported into QSR Nvivo software, which facilitated the data to be organised and presented in a platform whereby the identification of key themes was undertaken. This was followed by a process of coding-up the data into primary and secondary codes. Once completed, a thorough analysis of the data was undertaken where the researcher was able to identify patterns and trends through the identification of similarities, differences, continuities and dis-continuities within and across the case studies. This analytical process elicited data that is rich and complex and facilitates the construction of a detailed picture of the environment, internal and external, which influences and impacts on the approach to philanthropy taken by each individual entrepreneur and their formal vehicle of philanthropy. Importantly, this allows the researcher to view the process of philanthropy through significant events and incidents as experienced by the entrepreneurial philanthropist, their chief executive and other key employees of the formal vehicle of philanthropy (foundation) and the recipient investee. The five case studies elicited over 318 pages of transcript with over 177,000 words being systematically reviewed and rigorously analysed. In most cases follow ups were required with interviewees and these were conducted by telephone and through email communication.

In addition to the primary data collected for each case study, primary data was also collected from industry experts by method of in-depth interviews. This data was valuable in developing an understanding of the philanthropic landscape.

Secondary data was also collated comprising of formal annual reports of each foundation, internal investment measurement documents, reports and memos. The secondary sources of data collated for each case were valuable sources of data that enabled the researcher to approach the review and analysis of each case study critically.

The following sections present the practice of entrepreneurial philanthropy, as derived from an intra and inter analysis of the five case studies and industry expert interviews.
The Practice of Entrepreneurial Philanthropy

Entrepreneurial philanthropy is centered on the development of a mutually beneficial working relationship between the core philanthropy team and investee. Entrepreneurial philanthropy is an interactive, iterative and engaged form of social investment. The entrepreneurial philanthropist draws on the learning, knowledge, skills and expertise derived from their success in the field of entrepreneurship. This is further supported and strengthened by the contribution of domain knowledge and expertise of the investee (social entrepreneur).

The significant level of personal wealth that is being used for the purpose of philanthropic investment by entrepreneurial philanthropists ensures their continued active engagement and direction in the redistribution of their wealth. Wealth, that as entrepreneurs they have worked tirelessly to create. Entrepreneurial philanthropists use their entrepreneurial career as a benchmark as to what they can achieve in the field of philanthropy. The ambition and drive which has contributed to their own entrepreneurial success underpins their approach to philanthropy. In particular, the entrepreneurial mindset is a key driver in how entrepreneurial philanthropists approach their philanthropic investment activities (how they identify opportunities, access resources and make things happen). The role of the social entrepreneur is important within this process. Their significant ownership of domain knowledge and expertise is critical to the development of a product/service that meets a specific social need. The model below illustrates the key components of entrepreneurial philanthropy and outlines the interconnectedness and dual learning approach of the entrepreneurial philanthropist and the social entrepreneur throughout the process of philanthropy.

Model of Entrepreneurial Philanthropy

The model depicts the process of entrepreneurial philanthropy as comprising of key individuals, resources and entrepreneurial competencies. The entrepreneurial philanthropist (EP) and the social entrepreneur (SE) are key agents in this process, but where there is an important role for other influential figures (other high net worth entrepreneurs engaged in philanthropy, leading political figures, individuals from international development and others e.g. celebrities). Such individuals contribute valuable resources to the philanthropic process which extends the resource and power base of the entrepreneurial philanthropist and social entrepreneur to affect social change the delivering a solution to a social problem. Importantly such individuals are normally linked to the networks of the entrepreneurial philanthropist. The multiple resources that are applied include specific knowledge (entrepreneurship, development, political, science, medicine and media), finance,
networks and contacts, and status and reputation. Collectively, such resources are necessary in order enable the entrepreneurial philanthropist and social entrepreneur to identify opportunities and to become a unified producer and deliverer of change. Importantly, the decision making process that is embarked on by the philanthropist as to whether to make a formal investment is not instant and typically takes place over a few months this is discussed in more detail in the following section.

**Entrepreneurial Philanthropy Decision Making Criteria**

The decision making process that is undertaken by the philanthropist and their team as to whether or not to commit to a formal philanthropic investment is an iterative process and typically takes place over a period of months. Specifically, the decision making process is valuable to explore in more detail as it furthers our understanding of the practice of entrepreneurial philanthropy. Importantly, the decision making process leads us to consider the influence of venture capital to entrepreneurial philanthropy.

The process of engagement between the philanthropy team and potential investee bears similarity to the relationship between that of a venture capitalist and investee. The first similarity is the active targeting of potential investment opportunities by the philanthropist and their team. The second similarity is the criteria used by the philanthropy team to assess potential investment opportunities, both of these are discussed further in more depth.

“We are a proactive foundation, so we actively go and identify the programmes (and people) we are going to work on, the principal role is to say strategically what projects will we take on and we very rarely fund reactively” (Philanthropist, Case 1).

The identification and pro-active targeting of social entrepreneurs, social enterprises and charities for philanthropic investment is a key tactic employed across all five case studies. This is supported by extensive networks of personal contacts and wealth of social capital that the entrepreneur turned philanthropist has within their reach. The development of social capital is strengthened further through the strategic recruitment of influential individuals within the field of philanthropy and international development to their individual Foundation Boards, whose resources can be leveraged further. Once potential investees have been identified, the potential opportunity for investment is assessed through decision making criteria - concept, management and return. These criteria are similar to the criteria used by venture capitalists when making investments (Fried, 1994). Specifically, the philanthropy team consider the concept, management and the return of the investment (the social return) as is explored in more detail in table one.

**Table 1: Entrepreneurial Philanthropy Decision Making Criteria**

<table>
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<tr>
<th>Concept</th>
<th>Management</th>
<th>Return</th>
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<tbody>
<tr>
<td>A workable solution that addresses a social/ economic problem that fits with the broad area of EP intervention.</td>
<td>Personal integrity (the EP has to develop a relationship of trust with investee (SE))</td>
<td>A social (non financial) return on the investment through the creation of social and/or economic change/ development in the locality of investment.</td>
</tr>
<tr>
<td>Innovative concept that is designed to address a core social and economic problem</td>
<td>Management and leadership capability is present within the investee organisation</td>
<td>Sustainability of a tried, tested, piloted and proven solution - permits an exit for the EP (typically over a long term time period).</td>
</tr>
<tr>
<td>Reasonable capital requirements: economic, social, cultural and symbolic.</td>
<td>Realism - risk aware and open to a joint approach to managing risk.</td>
<td>Potential for the scaling up of the solution - either through policy change or by replication.</td>
</tr>
<tr>
<td>Flexibility - to adapt</td>
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</tbody>
</table>
Table one outlines the key criteria that the philanthropy team consider when they are assessing potential investment opportunities. Once a decision has been made to give further attention to and explore a potential investment opportunity, the philanthropy team (comprising of the philanthropist, the chief executive of their foundation and other key individuals within the foundation) begin to develop a solid working relationship with the potential investee. In part, this is a process of determining the suitability to enter into a long term strategic marriage with the individual and/or their organisation. However, by applying the framework of concept, management and investment the philanthropy team are also gathering information and developing a contextual understanding of the potential and innovation of the solution being considered. Furthermore, the philanthropy team also consider the foreseeable challenges around delivery within this decision making framework. More specifically, the philanthropy team consider if the potential investment outcome can make a difference in the chosen and targeted area of their philanthropy.

Entrepreneurial philanthropy is focussed on addressing the core of socio-economic problems as opposed to alleviating them, a method more akin to the charitable model of giving (Fleishman, 2007). During the pre-investment stage, the philanthropy team seek to establish the extent to which the social entrepreneur has the willingness to embark on a journey of experiential learning. The philanthropy team seek to ascertain if the leadership has the desire and capability to strive for the big win. Specifically, the big win is what the philanthropist is seeking to achieve in the long term through developing a scale-able solution that can be reached either through replication or policy change. The potential investee is guided by the philanthropy team to develop an understanding of the bigger picture and what their specific product or service contributes to the future landscape. Importantly, the emotional attachment and commitment of the philanthropist to the potential investment opportunity develops significantly early on in the process as they consider the potential impact that making an investment could make to achieve significant social change.

Table two illustrates further important aspects of the decision making process at pre-investment stage (opportunity assessment) of the entrepreneurial philanthropy process.

<table>
<thead>
<tr>
<th>and respond to the complex nature of the social/ economic problem and the nature of the surrounding environment.</th>
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</thead>
<tbody>
<tr>
<td>Accepting of the experiential learning nature of the entrepreneurial philanthropy process, accepting to the process of knowledge transfer.</td>
</tr>
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</table>

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Table 2: Entrepreneurial Philanthropy Decision Making Process

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
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<tbody>
<tr>
<td>1</td>
<td>Development of network and contacts in the field of new philanthropy and international development. The newly formed contacts act as referrers who facilitate the informal referral of possible investment opportunities to the EP.</td>
</tr>
<tr>
<td>2</td>
<td>EP’s articulate specific criteria in the areas that they want to focus their philanthropic investment on.</td>
</tr>
<tr>
<td>3</td>
<td>EP encourages potential investee to develop an investment proposal.</td>
</tr>
<tr>
<td>4</td>
<td>Philanthropy team develop a close working relationship with the potential investee: getting to know them, gathering information and developing a contextual understanding of the demand and supply of the specific product or service being considered for investment.</td>
</tr>
<tr>
<td>5</td>
<td>EP develops an emotional commitment and attachment to the area of potential investment and assesses the extent to which an investment will translate into an active solution that has impact and longevity.</td>
</tr>
<tr>
<td>6</td>
<td>EP and philanthropy team spend significant amount of time helping investee to shape an investment proposal that can be presented to the Board of the Foundation. The Foundation Board are the rational decision maker in this process, a necessity given the strong emotional pull factor of the EP to the desired outcome of making an investment.</td>
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The six stages of decision making outlined in table two illustrate the intensity of the relationship between the philanthropy team and the potential investee. The level of engagement between both parties during the early stages of the decision making process is significant. Importantly, as is illustrated in stage 6 it is the role of the Foundation Board to reach an investment decision that considers the risk, durability and impact of making a formal investment. Critically, the Foundation Board consider how risk can be managed in an investment so to optimise the pursued outcome so that it has impact and results in the creation of social/ economic change.

Adding Value

Further consideration of the decision making process illustrated in table 2 highlights the value added dimensions of entrepreneurial philanthropy. During stages three, four and six of the decision making process the philanthropy team add significant value to the potential investee through the transfer of process specific knowledge. The knowledge transfer occurs across a spectrum of issues including the development of management processes, evaluation and reporting techniques, assessing the type and the quantity of resources required and how they can be accessed. Importantly, the philanthropy team guide the core investee to think more strategically about the potential impact of their social innovation. This acts to support the potential investee to become more ambitious in their approach to social innovation. Leading the potential investee to consider what their own contextual and specific expertise can achieve when combined with the entrepreneurial mindset, approach, resources and experience of the philanthropist.

“You can value add a lot as a foundation in helping (the investee) think through the conception of the programme as it goes along” (Philanthropist, Case 3).

An important ‘softer’ aspect of value that is added to the potential investee by the philanthropist and their team is the harnessing of their entrepreneurial mindset and behaviour. This occurs through the potential investee’s exposure to and engagement with the philanthropist and their team. Therefore as well as, the transfer of tangible process oriented knowledge between the philanthropy team and potential investee, there is a softer dimension to adding value that is less tangible but equally important to the future direction and capability of the potential investee. However, a more tangible aspect of the value that is added to the potential investee is the harnessing of the philanthropist’s social capital (networks and contacts). Primarily, this serves as a mechanism to facilitate access to the required resources owned by significant other influential individuals.
An interesting aspect of entrepreneurial philanthropy is that the value added dimension is two way. The philanthropists learn a significant amount from potential investees in the form of context specific and domain knowledge. The entrepreneurial philanthropy process is front-end heavy, in the relationship that is developed between the philanthropy team and the potential investee. The process of dual and experiential learning begins from the outset of the relationship. The contribution of both parties to the ‘value added element’ of the dual knowledge exchange is critical to the development of a mutually beneficial working relationship. It is through this interactive exchange of knowledge that the philanthropy team become producers of information, much in the same way that venture capitalists are considered to be (Sahlman, 1990).

Post Investment Stage

Once a decision to make an investment is made (the domain of the Foundation Board), the intensity of the relationship between the philanthropy team and investee continues through the adoption of a measured approach that shares many similarities with the process of venture capital investment. Within this context the setting and agreeing of outcomes, milestones, and measurement processes is undertaken by both parties. This is a joint process where the philanthropy team and investee both have input and reach a joint agreement by way of a partnership approach. The philanthropy team consider this is a positive way to proceed, so that jointly with the investee they can manage risk and yet achieve a realistic timeline to reach the end goal - the big win.

“It is a business-like approach, it is determining at the outset what you want to achieve, agreeing that with your partners (term refers to investees), agreeing what success looks like over a period of time and then breaking it into manageable chunks to actually go along the way of your right track” (Philanthropist, Case 1).

“We have got to approach all these sorts of things as on a peer or partner relationship. You can’t go into it thinking I have got the money; therefore I call the shots, or have this relationship that is asymmetric. So it is about taking the time to build relationships and listening to people about what they are doing and trying to learn” (Philanthropist, Case 2).

After both parties agree a framework from which to proceed, a formal contract is drawn up. The contract sets out the joint agreement based on the overall learning from both parties. Importantly, the contract outlines the key stages when economic funding will be released as well as the core reporting and measurement procedures that will be adopted by both parties. This sets firm boundaries and roles for each party, but importantly is married with ongoing support, advice and governance from the philanthropy team to the investee. This is a mechanism for the philanthropy team to provide the necessary supportive environment that is required to reach the intended outcome with the social entrepreneur, even though that may be far away. Critical to achieving the end goal is the continued strengthening of communication between both parties. Communications can occur daily or weekly in the early stages of investment depending on how fragile the environment being invested in is. However, communication often progresses to monthly and quarterly formal reports to the philanthropy team. The long term nature of this type of philanthropic investment entails that communication and flexibility are considered as key components to the development of successful and mutually beneficial working relationships. The strong interaction between investor and investee is also relative to the safeguarding of the investment by the philanthropy team, whose ultimate interest is to reach the intended outcome.

“Ultimately we are the people that are sending the cheque but our real interest is making this programme work” (Foundation Chief Executive, Case 1).

Taking all of this into consideration the ability of each party to communicate failings and be accepting of mistakes and key challenges is critical to the development of solutions to such occurrences. Although risk is assessed in the early stages of the investment relationship, and managed through the processes and procedures adopted in reporting and measuring progress there is always an element of unpredictability in the areas where this type of philanthropic investment is being targeted.

“We are constantly trying to work out what works. We are aware, certainly more, that initially some things don’t work and okay we did that, we tried that and we tried adopting this
particular process and encompass this particular way of working. This is all still work in progress” (Foundation Chief Executive, Case 5).

“It is about some experimentation, it is about people, it is about trial and error, it is about results, it is about resourcefulness, and it is about not getting too dejected when things don’t go well.” (Philanthropist, Case 2).

The unpredictability of the environments that entrepreneurial philanthropy is typically targeted at is particularly suited to entrepreneurial individuals. The long term intervention strategies and commitment to invest in environments that are economically, politically and socially fragile requires stamina and perseverance long associated with the entrepreneur. Furthermore, the flexibility and ability of entrepreneurs to adapt and respond to challenging situations head on supports this kind of philanthropy. As a form of philanthropy entrepreneurial philanthropy is well matched to intervening in areas that require intervention that is flexible, considered and risk aware. This is similar to venture capital, which is considered as an apt form of investment in environments that are highly uncertain (Fenn, 1995; Sahlman, 1990). This paper proceeds by presenting a discussion on how the practice of entrepreneurial philanthropy is influenced by the practice of venture capital.

**Entrepreneurial Philanthropy as a Venture Capital Model**

Entrepreneurial philanthropy as a form of social investment is deeply rooted in the practices of venture capital, yet it differs in a variety of ways. Entrepreneurial philanthropy is an intensely iterative, interactive and engaged process of philanthropic investment that moves beyond the cooperative relationships that typically characterise venture capital investment (Steir, 1995; Sapienza 1996; Cable, 1997; Shepherd, 2001). The intensity of the investor-investee relationship is rooted in the early stages of the philanthropic process when the philanthropist explores the investment opportunity. Whilst simultaneously, adding considerable value to the potential investee through the transfer of process oriented knowledge and providing them with access to beneficial networks and contacts. The transfer of knowledge supports the potential investee to develop a strong investment proposal for submission to the Foundation. Importantly, it also enables the potential investee to adapt their current management and performance measurement processes so that performance can be enhanced even before investment occurs.

The value added elements have been discussed already; philanthropists act as gatekeeper’s to other significant individuals who are located in commerce, development, political and philanthropy networks and whose resources can add value to the both parties. This acts to serve as a precedent for how the relationship continues beyond a firm commitment to invest. The intensity of the relationship and the hands on approach adopted by the philanthropist and their team is driven primarily by a desire to maximise a social return on their philanthropic investment. Similarly, the venture capitalist is focussed on a financial return on their investment. However, the drive to maximise a social return is also rooted in the emotional commitment of the philanthropist to make a difference with their wealth, in a structured and targeted way that results in a specific outcome being produced-social change.

The term social wealth as proffered by Zahra (2009) is useful in this context, entrepreneurial philanthropists seek to maximise a return on their investment by creating social wealth (economic, societal, health and environmental human welfare). Critical to their ability to achieve this, is the experiential learning process that is embraced by philanthropists and investees in this type of philanthropic investment. A process where there is a duality of learning and where each party adds value to the other through the transfer of knowledge, both contextual and process oriented beyond the obvious resource element. Although the concept of ‘value-added’ has been explored in the venture capital discourse (Sapienza, 1996; Declerq, 2005), the discourse has focussed on the venture capitalist adding value to the entrepreneur in the investment process. There has been little consideration as to how the investee adds value to the investor. Entrepreneurial philanthropists are learning and gaining new knowledge through their philanthropic endeavours and through the development of mutual beneficial working relationships. Both the philanthropy team and investee contribute to the development of new knowledge and approaches to the creation of innovative solutions to social problems. Both parties are producers of information, which adds significant value to each other and to society.
Venture capitalists, seek to exit an investment on maximising their financial return. Entrepreneurial philanthropists seek to exit a philanthropic investment on the creation of a sustainable entity that can continue to trade in a product or deliver a service that addresses the core of the problem being targeted. The challenge for the entrepreneurial philanthropist is that there is no short term measure of when this may be. Furthermore, the typically disorderly environments that their philanthropic interventions are located in ensure that they need to be committed to long term intervention. Therefore, the exit strategy of an entrepreneurial philanthropist although defined, is also blurred through their flexibility. The challenge lies in how the governance structures that are put in place by the philanthropist and their team can create an environment that is supportive to the investee organisation, to make progress towards the intended outcome, but that is not restrictive on their ability to create and innovate.

Conclusion

The paper presents a model of entrepreneurial philanthropy and illustrates how such philanthropists approach their philanthropic investment activities. The research findings detail the pro-active targeting of potential investees and strategic recruitment of prominent individuals to their Foundation Board, favoured by entrepreneurial philanthropists as a mechanism to strengthen their position as a producer of social change. The paper discusses the relationship centred method of investment, that is embedded in a process of experiential learning, which results in knowledge transfer across both parties. This process of knowledge transfer enables considerable value to be added to both parties, and beyond to society. The adoption of governance structures which are synonymous with venture capital methods is critical to the continuing focus of the philanthropist to achieve impact and scale. The entrepreneurial mindset and drive that has facilitated the creation of significant entrepreneurial wealth is applied in a strategic, focused and highly ambitious way to champion innovative and sustainable solutions to address a multitude of problems.

As research into contemporary forms of philanthropy is embryonic in the field of entrepreneurship, there is significant scope to further our understanding of how the entrepreneur continues to add value to our society beyond the wealth creation process by engaging in philanthropy. Developing a future research agenda that focuses on the process of entrepreneurial philanthropy as well as the key contributors would progress our knowledge and understanding of what entrepreneurs do beyond wealth creation. Future research should explore entrepreneurial philanthropy and opportunity recognition. Entrepreneurial philanthropists use informal and formal processes to identify opportunities for social investment, supported by the strategic recruitment of influential individuals to their Foundation Boards. Further research on the development of social capital in the fields of entrepreneurship and philanthropy is required to contribute to knowledge on how networks specific to the field of entrepreneurship add value to the field of philanthropy.

Secondly, further research on the challenges of scaling-up and measuring social impact from an investee and investor perspective would contribute to a more thorough understanding of the impact of applying venture capital tools and business practices in a social context, and consider the limitations of such approaches. Thirdly, the role of the social entrepreneur within philanthropy has largely been devoid of attention (Van Slyke, 2006). There is significant opportunity to contribute to the social entrepreneurship and philanthropy discourses by exploring the increasingly prominent role of the social entrepreneur in contemporary philanthropy.

References


