

Venture philanthropy

A Canadian executive joins a new breed of technocrats applying business principles to charitable undertakings

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By: Dana Flavelle - The Toronto Star

In a world fed up with self-enriching Internet ventures, Bill Young's latest endeavour is a breath of fresh air.

Like other well-placed technocrats at the height of the market craze for dot-com stocks, Young took home bag loads of cash, much of it earned on an early-stage investment in Red Hat Inc., the venture his cousin Robert Young helped turn into the world's largest distributor of Linux-based software.

"I ended up with more money than I'll ever need," the Ancaster, Ont.-born Young says, looking decidedly embarrassed. (Young's cousin is also from Ancaster.)

But instead of retiring to a garage full of vintage cars, or throwing his excess funds at the next high-tech thrill ride, the Harvard-educated business executive decided to take his 20 years of entrepreneurial experience and try to make the world a better place.

Admitting it sounds corny, Young, 47, describes it as kind of mid-life response to the question: "What's life all about." The huge financial imbalance between successful corporate investors and the rest of the world was also starting to bother him, he says. "There was no sense that anyone else mattered. It was all about the whims of the capital markets."

Since founding Social Capital Partners in early 2001, a cross between a venture capital firm and a charitable foundation, backed with \$10 million in personal stock market gains, Young is no longer plagued by such questions.

In the process, he's joined a new breed of "venture philanthropists," a movement launched in Silicon Valley in the dying days of the dot-com boom by suddenly wealthy Internet entrepreneurs bent on closing the rich-poor gap by applying results-oriented business principles to social problems.

Though the movement is small, just 42 foundations in the United States with \$400 million in available funding (about 2 per cent of all charitable giving) are considered venture philanthropy-driven, according to the latest survey by U.S.-based Venture Philanthropy Partners, their impact is potentially huge.

Far too much traditional charitable giving is focused on managing problems rather than solving them, says Gordon Floyd, vice-president of public affairs for the Canadian Centre for Philanthropy. "I think the venture philanthropy approach is causing a lot of people in the charitable sector to think about what they do, and what they can do, in a more results-oriented way, even when they're dealing with problems that seem completely intractable."

On the charity side, the arrival of a new breed of hands-on philanthropists from primarily engineering, computer programming or accounting disciplines means even the hard-to-measure programs, such as counselling, could learn how to report concrete results.

Young had just relinquished his day-to-day duties running Optel Communications Corp., a competitive local exchange carrier, when he heeded the call of venture philanthropy. He had been chief executive officer of Hamilton Computer Corp., which had grown from \$15 million to \$250 million in sales under his leadership when it was bought out by GE Capital.

Inspired by the work of New Profit Inc. in Cambridge, Mass., Young says he initially set out to identify innovative programs with visionary leaders who could benefit from his entrepreneurial skills and deep pockets

"We wanted to find out which non-profit organizations were getting the best return on their investment and grow those ideas," he says during an interview at Social Capital's offices in a converted warehouse in Toronto's Internet business district at Richmond St. W., near Spadina Ave.

But he quickly discovered what works in America, with its long tradition of private foundation involvement, couldn't successfully be transplanted to Canadian soil, where government is the main source of non-profit funding, he says. Too many promising young Canadian organizations were already knee-deep in funding tied to political objectives, leaving little scope for Young's venture to shape their agenda.

In Canada, government funding accounts for 60 per cent of the \$90 million in annual revenues raised by Canadian charities, according to the centre for philanthropy's records.

Another 26 per cent is raised by the charities themselves through the sale of tickets to events, or raffles, while the remaining 14 per cent comes from corporate and individual donations.

Government funding isn't necessarily bad, says Young, but any system dependent on one source of income is bound to have limitations. "Government funding makes it hard to take risks because governments don't accept failure," he said. "We've got to find a way out of this dependence on government funding."

So, in typical entrepreneurial fashion, Young changed course. Again, he found inspiration south of the border, this time at The Roberts Enterprise Development Fund of San Francisco.

The foundation, set up by leveraged buyout billionaire George Roberts of New York-based firm Kohlberg, Kravis, Roberts, has financed 15 ventures so far, each one employing disadvantaged populations, such as the homeless, alcoholics and aboriginal youth. It measures their success or failure partly in terms of how much public assistance their workers require over the term of their employment, and publishes the results on its Web site.

The companies range from relatively low-skilled, labour-intensive ventures, such as landscaping, to Web page design.

Young is now in the process of developing a Canadian version of the Roberts social enterprise model. To that end, he announced in February a business plan contest that closes at the end of this month. Candidates are invited to submit proposals that employ at-risk youth. The winner will get \$15,000 in start-up funding and up to \$1 million in additional funding over five years, along with active management support.

And that's just the starting point.

Accustomed to thinking big, Young believes the only way to have a significant impact is with a concept that provides thousands of jobs, not just a handful. In addition to funding other people's ideas, maybe Social Capital Partners will start some of its own.

He's thinking maybe the whole concept requires national branding, something that will attract big-name corporate sponsors and mass-consumer support. Something like College Pro Painters, he says, referring to the entrepreneurial outfit that helps college-age students finance their education by giving them summer jobs as house painters.

Along the way, Young has acquired two business partners, including Sean Van Doorselaer from the international business strategy consulting firm The Monitor Group, and Joanne Norris, an expert on non-profit enterprises and international development.

Young says he has no illusions about how difficult it will be to manage ventures with both a financial and a social objective, what he calls a "double bottom line." He considers Social Capital Partners a 10-year journey of discovery that's still in its infancy.

"We've got a lot of learning to do," he says, smiling at the prospect.