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On the Frontlines

Profiting From Failure

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I remember that breakfast at Ella's restaurant in San Francisco back in the spring of 2003. I had flown down from Seattle to meet with three co-founders and two staff members of Social Venture Partners Bay Area (SVP Bay Area), a venture philanthropy nonprofit. SVP Bay Area was struggling after its fast and successful start in 2000. As executive director of SVP Seattle and founding president of Social Venture Partners International (of which SVP Bay Area was an affiliate), I was there to help the organization address its stagnating donor pool and ebbing morale.

The oatmeal and pancakes were excellent. But as the SVP Bay Area team described how they were struggling to recruit and retain donors, I felt the heartburn rising in my chest. I didn't yet know enough to help them stop their organization's bleeding.

Over the next 18 months, the committed leaders of SVP Bay Area tried to revive the organization. They ultimately decided to let it close in early 2005. Recently I asked a few of the people who attended that breakfast why SVP Bay Area didn't last for the long haul. I was fascinated to learn how divergent our diagnoses are. This divergence reveals to me not only how underdefined the SVP model was at the time – we all had different ideas about what we were doing – but also how much clearer our model is now.

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Too Organic

SVP International brings together nonprofits and philanthropists to learn from each other and to improve their communities. SVP donors pool their funds and skills to provide more resources to nonprofits. The network includes more than 1,500 donors, or "partners," each of whom contributes $5,000 annually. More than 100 children's, educational, and environmental nonprofits currently benefit from the network's efforts.

The first Social Venture Partners affiliate was SVP Seattle. When it opened in 1997, the founders were not thinking about creating an international network. But by 1999, SVPs started popping up in other cities. As this organic growth continued, the new SVPs suffered from the lack of a clear formula for success and from not having the infrastructure to learn from each other. To remedy this, we formally created SVP International in early 2002.

My heartburn at that breakfast arose not only from what was happening at SVP Bay Area, but also from events at the SVP in Austin, Texas. If there are two cities in North America that could support SVPs, these are they. Yet both were experiencing similar symptoms: slowed recruitment of new donors and hastened attrition of old ones.

At the same time, new SVPs in Phoenix, Dallas, and San Diego were thriving, and others were steadily growing. Why was the same model succeeding in these cities and not in the Bay Area? How could we build an effective international philanthropic network if we couldn't figure out what worked and what did not?

My Take

We were determined to learn from the closure of SVP Bay Area. Although the secrets of success are notoriously elusive, I believed that the foundations of failure should be obvious. I was wrong. In discussing the closure of SVP Bay Area with one of its founders and a staff member, I realized that although we agree on some issues, on many others we don't. We all think that the Bay Area affiliate's neighborhood-based approach – by which donors focused on fixing many different problems in a single neighborhood – was too intensive and complex for a member-driven organization.

We also concur that SVP International had not developed enough by 2003 to give its affiliates the tools and insights they needed. For example, SVP Bay Area staff didn't have the brochures, videos, and message framework to communicate a consistent brand and message to potential donors.

Beyond these points of agreement, however, our analyses diverge. In my opinion, SVP Bay Area and SVP International did not build sufficient infrastructure for the fledgling affiliates. Instead, every affiliate had its own database, built from scratch; disparate or no impact-measurement tools; and no networkwide system for sharing knowledge.

We did not yet know that building these systems would be vital for success. We also did not understand that working around these deficiencies consumed a great deal of staff time. Although SVP Bay Area's founders and staff recognized that the organization needed more infrastructure, I don't think they fully understood just how much.

I also think that when the exhausted SVP Bay Area founders passed the baton on to professional staff, they created a leadership vacuum that derailed the momentum of the organization. For the first 12 to 18 months of the affiliate's life, SVP Bay Area was led by volunteers and its founders, with a core group of people putting in a lot of energy and time to make things happen. As is the case with many nonprofits, though, fatigue set in. Hiring the first staff people allowed the founders to relax.

But when that initial core leadership relaxes too much, they take with them their aspirational leadership – that is, their ability to inspire action, evangelize their mission, and connect with potential donors on a peer level. Although the new staff can provide operational leadership, they cannot fully replace the founding team's aspirational leadership – no matter how good they are.

Differing Views

I suspect the SVP Bay Area founders would disagree with me that they relaxed too much, and would instead emphasize other factors in their office's closing.

For example, they point out that competition for Bay Area philanthropic dollars was stiff. Adding to the competition were other philanthropic organizations that used a similar model, such as the Full Circle Fund and Silicon Valley Social Venture Fund (SV2), which are still growing and prospering.

But these two organizations claimed only some 400 members. In a metropolitan area of nearly 7 million people, of whom tens of thousands have net worth of at least $1 million, there should have been plenty of potential donors for SVP Bay Area. The idea that competition squeezed out this SVP affiliate defies the math.

SVP Bay Area staff cite the bursting of the dot-com bubble as another cause of their affiliate's closure. But other innovative philanthropic organizations flourished at this time, and so this explanation doesn't seem likely, either.

The founders of SVP Bay Area also feel that the SVP brand constrained local innovation, which contributed to the affiliate's demise.

I'm not sure about that.

The last five years have taught us that international nonprofit networks more often fail when they are too loosely directed in their early years. New, small nonprofits like SVP affiliates have resource constraints and need to focus as much energy as possible on strategy and value-adding activities. If we left defining too much of the model up to local affiliates, their limited resources would be even further stretched.

Hard Lessons

The organic founding and growth of the SVP network was not without positives. We learned some lessons the hard way, and we are now applying them to newer SVP affiliates in Los Angeles, Charlotte, N.C., Tucson, Ariz., Des Moines, Iowa, and even Tokyo.

One lesson is that great people alone do not guarantee success. SVP Bay Area had many great people. But without sufficient infrastructure and consistent leadership, the affiliate could not get – and stay – off the ground. To build better infrastructure, all SVP affiliates now share one common member-relationship management system, a centrally developed set of measurement tools, and a knowledge management system and group workbench. To avoid leadership vacuums, we now religiously stress the importance of both aspirational and operational leadership, urging founders not to recede after they complete their initial heavy lifting.

There is always more to learn, but SVP affiliates are growing again. Three new SVPs have joined the network in the last six months, and others are in the works. Our first comprehensive survey of donors shows that the struggle has been worthwhile – donors increased their giving by more than 25 percent since joining, gave more strategically, and expanded their volunteer leadership in community causes and programs. I think we are now on our way to becoming a high-impact philanthropic model for the 21st century.

I have recovered from the heartburn I felt at Ella's three years ago. But I haven't forgotten the feeling and the lessons it foreshadowed. The silver lining is what we learned and how it has helped us improve. □