

Stanford SOCIAL INNOVATION^{Review}

Viewpoint

The Four Principles of Venture Funding

By Terry Winograd, Jocelyn Goldfein & Robert Bank

Stanford Social Innovation Review
Winter 2019

Copyright © 2018 by Leland Stanford Jr. University
All Rights Reserved

VIEWPOINT

The Four Principles of Venture Funding

Whether someone is investing in a tech startup or a grassroots advocacy organization, the same rules of success apply.

BY TERRY WINOGRAD, JOCELYN GOLDFEIN & ROBERT BANK

An entrepreneur is a person with an idea, whether that idea launches a tech startup or a social change movement. But if you're a venture capitalist or a philanthropic funder, how do you know which fledgling enterprises to back? From our perspectives from years in the California tech world (Terry and Jocelyn) and in social change philanthropy (Robert), we see four basic principles that guide successful investing in both situations.

Our first rule concerns the entrepreneur: *Bet on outstanding people.*

The Silicon Valley success stories are legendary: Steve Jobs' meteoric rise with Apple and Mark Zuckerberg's transformation of social networking through Facebook, for starters. There are similar iconic examples in global philanthropy. Take Leymah Gbowee, a Liberian activist who led a women's movement to end her country's 14-year civil war. Fed up with the bloodshed, Gbowee organized tens of thousands of women in 2002 to flood the streets and markets with peaceful sit-ins. After this grassroots effort succeeded in bringing the warring parties to the peace-making table, she turned her attention to the fledgling democracy and started looking for funders to support her work to get women to the polls. In 2003, she sent a proposal to American Jewish World Service (AJWS), which Robert leads—an organization that supports 450 grassroots organizations in 19 countries working to promote human rights and combat poverty in the developing world. AJWS gave her nascent organization, Women in Peacebuilding Network, its first grant. Gbowee used the \$12,400 to deploy 250 women in seven communities and registered more than 10,000 women to vote in five days.

With continuing support from AJWS and other funders, the movement grew. Soon, Liberia's women—who had previously been almost universally disenfranchised—represented 51 percent of the country's registered voters. In 2005, these women helped elect the country's—and, in fact, Africa's—first female president, Ellen Johnson Sirleaf. In 2011, Sirleaf and Gbowee were together awarded the Nobel Peace Prize.

Not every philanthropic investment wins the Nobel Prize, nor does every venture capital bet become Apple. And the ultimate goal of strike-it-rich Silicon Valley is different from that of a social change funder seeking to reduce poverty and advance human rights. But the best gambles in both spheres bet on passionate, well-functioning individuals and teams—pioneers like Jobs and Gbowee and their colleagues—who stand

out for their smarts, creativity, vision, grit, and determination. Finding all of these qualities in one person or team is rare, but when it happens, you have identified an entrepreneur worth backing.

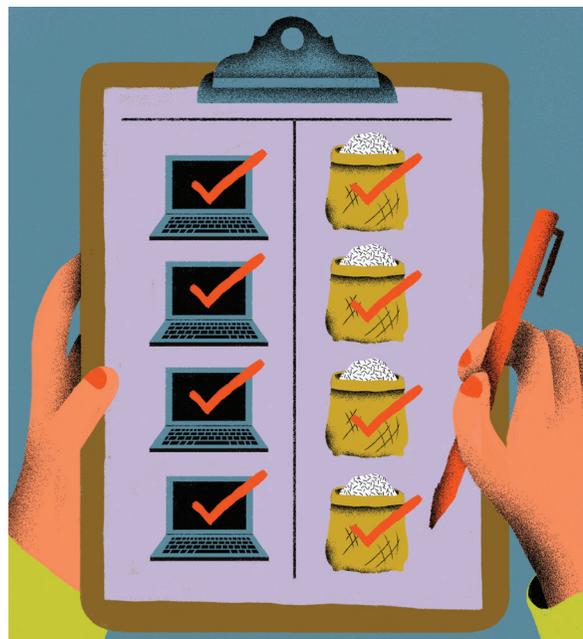
BUILDING MOVEMENTS IN STAGES

The principles of successful investing in venture capital and social change philanthropy are remarkably similar, and, in our experience, following them offers a high probability of success. In addition to betting on outstanding people, there are three further rules.

First, *take calculated risks by knowing the investment landscape.* In venture capital (VC), early investors get bigger shares, because they shoulder bigger risk. But taking risks doesn't mean backing every idea that comes along. Venture firms have a broad view of the entrepreneurial landscape and apply due diligence, evaluating prospects and assessing their potential in comparison with others. These earliest investments in a fledgling entrepreneur's operation are essential: They enable that person to expand enough to be attractive to venture funders at increasingly higher levels.

Social change philanthropy takes a similar approach to risk. AJWS supports hundreds of local—many of them nascent—

grassroots organizations helping marginalized people working to defend their rights. These ventures might seem riskier than the development and infrastructure projects that large NGOs or agencies, such as the World Bank, already support. But AJWS has the perspective to bet successfully on entrepreneurial projects because it has local representatives working in the countries where it operates. Like venture funders, they know the landscape and carefully vet each individual or group they back, to ensure that they are trustworthy,



TERRY WINOGRAD is professor emeritus of computer science at Stanford University, founder of the Stanford Human-Computer Interaction Group, and past president of Computer Professionals for Social Responsibility.

JOCELYN GOLDFEIN is managing director at Zetta Venture Partners, where she leads funding rounds for startups applying artificial-intelligence tools to solve business problems.

ROBERT BANK is president and CEO of American Jewish World Service, a social change organization that supports 450 grantees in 19 countries working to promote human rights and combat poverty in the developing world.

understand what the community needs, and can execute their ideas. AJWS can thus confidently find and fund a Leymah Gbowee at an early stage.

Second, *amplify impact and sustainability by creating networks*. VC firms give startups more than money: They foster invaluable connections that help those enterprises grow and thrive. VC backers introduce their companies to customers, employees, and partners. Investors that specialize in a particular area can also facilitate customer relationships among companies that they back. And having a VC backer gives entrepreneurs credibility with other companies offering goods or services. For instance, cloud-computing-platform providers (including Amazon Web Services, Google Cloud, and Microsoft Azure) offer 100,000 free credits to VC-backed startups because they believe it's a safe bet that many of these ventures will eventually become lucrative paying clients.

Building networks is also crucial to success in social change philanthropy. In each country where it operates, AJWS funds constellations of organizations of different sizes that work on the same issues. It brings them together to incubate ideas and launch ambitious local and national campaigns that have changed the course of communities and nations. In El Salvador, for example, AJWS supported the growth of a farmers' movement that won a national ban on metallic mining—a first anywhere in the world. The problem was critical: Gold mining had poisoned the water supply, and local communities were seeing dramatic increases in cancer and kidney disease. Twelve grassroots groups convinced thousands of local people over 11 years to advocate for government intervention. AJWS invested in this effort, and its in-country consultants supported and guided the network to organize and grow. After years of advocacy, court cases, and incremental victories, the farmers won a government ban in 2017. And the network has spread even farther: AJWS connected the El Salvador coalition to activists in Haiti, where international companies have recently begun to explore gold mining. With guidance

from the seasoned Salvadoran activists, the Haitians aim to stop this potentially devastating exploitation before it begins.

While these lateral networks help drive profits and social change, vertical networks ensure the success of enterprises long into the future. Both venture funders and philanthropists can offer their investees access to new funders who will help them grow. That is why the VC process works in stages, starting with small, seed investments of around \$100,000 that help startups build capacity. Entrepreneurs who use that first investment to build a solid business model and customer base can then attract VC firms that invest at increasingly higher levels, bringing millions of dollars to the table. Indeed, a startup that has used its early funds well will find VC firms competing to be a part of its future.

Similarly, AJWS takes great pride in the fact that many of the nascent ventures it supports at the “seed level” later use these funds to grow and professionalize, and eventually attract larger investments from others. By the time Gbowee won the Nobel Prize, many other funders had joined AJWS in supporting her organization, and she was collaborating with dozens of other human rights groups. One woman determined to harness the power of other women to bring peace and stability to her country had become a movement and a desirable investment.

Third, *look for opportunities on the leading edge of problem solving*. Venture funders quickly tire of proposals for a company that will create a “better version” of something that is already being done; rather, they look for something entirely new. Jocelyn's firm, which specializes in artificial intelligence (AI), was ahead of the curve when it was founded in 2013. The following year, Google bought DeepMind, a large, London-based AI company, for more than \$500 million, an acquisition that signaled that AI is a new frontier for investment and development.

Similarly, one of AJWS's most significant investors, Dena Kimball, of The Kendeda Fund, approached AJWS to solve one of the world's most persistent challenges: child

marriage and gender inequality in India, where 1.5 million girls each year wed before age 18. Many countries have responded by raising the marriage age; but because the practice continues despite the laws—and because women suffer severe gender inequality regardless of when they marry—AJWS and its grantees looked for a more effective approach. With a \$30 million multiyear investment from Kendeda, AJWS now funds more than 60 grantee organizations in India tackling the root causes of this problem: rigid social norms that restrict girls' aspirations, life choices, and behavior. These grantees support girls to make decisions about their own lives—and to influence their families and communities, sparking the social and political change needed to advance gender equality. The project also includes research and advocacy to shift the global response to child marriage toward these solutions—making this project an incubator for problem solving that can be applied around the world.

INVESTING IN PEOPLE

Unlike traditional schemes in global development, which often export top-down, prepackaged solutions to people in need, AJWS's model of funding local social change entrepreneurs puts power in the hands of those who are best positioned to make lasting change by ensuring that the human rights of the most vulnerable people are realized. This is what it will take for our solutions to have the resilience to reduce poverty in the long term and counter the dangerous and turbulent forces threatening democracies and human rights around the world today.

This kind of venture funding for social change can fuel the rise of powerful civil society movements able to counter authoritarianism, change laws, and raise people out of poverty. We're witnessing grassroots organizations—networking together with others to form movements—changing the course of nations.

Whether investors are backing widgets or rights, the rules are the same: Find the right people, and give them the resources and connections for their ideas to fly. ■