

# High Impact Through High Leverage

Keynote Speech

by Mario Morino, Chairman, Venture Philanthropy Partners

Leadership in Nonprofit Management Award Luncheon

Mandel Center for Nonprofit Organizations

Case Western Reserve University

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**Susan Eagan:** We are exceedingly proud to have as this year's speaker, Mario Morino, Chairman of the [Morino Institute](#) and [Venture Philanthropy Partners](#), Special Partner at [General Atlantic Partners](#), and a member of the [Case Western Reserve University](#) Board of Trustees. Your program outlines Mr. Morino's numerous and substantial achievements. Throughout his career he has been a trailblazer in both the private and nonprofit sectors. He asks questions others do not and crafts innovative solutions that stretch boundaries and create new possibilities. His ideas about philanthropy and building capacity of nonprofit organizations are provocative and highly significant. I am confident that we will learn a great deal from his remarks today. Please join me in welcoming our keynote speaker, Mario Morino.

**Mr. Morino:** When you look at that fancy bio in the program and compare it with Susan's wonderful words, I'd rather have you hear the introduction my daughter gave to her second grade class last year. She brought me to school for Father's Day and said, "Here's my Dad. He loves the Cleveland Indians, he's bald, and he does a lot of email." The bald part hurts!

Thank you for the opportunity to be here for today's award luncheon and to be associated with the Mandel Center for Nonprofit Management. It's a special privilege for me to be associated with such a wonderful program honoring Steve Minter. I mean that sincerely; it is an honor to be on the same stage with a man who has achieved so many remarkable accomplishments.

Today, you are recognizing Steve and others for their leadership. I believe that leadership is one of the top challenges facing philanthropy and the nonprofit sector, in particular the community-based organizations that make up certain segments of that sector. We live in extraordinary times that demand bold leadership to drive meaningful, lasting change. We may never need that change more than now, both here in northern Ohio and across the country.

I want to provide a snapshot of the issues surrounding children, which is our primary focus at the Morino Institute and Venture Philanthropy Partners (VPP). In America, 12.1 million children live in a family experiencing poverty, with almost 75% of them in working poor families. More than nine million children under the age of 19 have absolutely no health insurance; 90% of whom are, again, in working poor families. Almost three million children are reported abused and neglected each year in the United States.<sup>1</sup> Here in Ohio, a child is born into poverty every 21 minutes,<sup>2</sup> abused or neglected every 10 minutes, and dies before her first birthday every seven hours.<sup>3</sup> Meanwhile, the state childcare system in Ohio faces a budget shortfall of \$75 million.<sup>3</sup> Even in this city that cares, that has a strong foundation resource base and a strong civic consciousness, this shortfall threatens the fate of many children and their families.

I come from what we call a "working-class" background from the neighborhoods in southeast Cleveland, in the Miles and Broadway area. When I was in this neighborhood on the richer eastern suburbs, we mowed lawns and did odd jobs. That's what I did; I cut your grass. I wasn't from the inner city, but I always described our family as having been poor, but not in poverty. There's a huge difference. Our family was perhaps poor in money, but we were rich in everything else. In our old neighborhoods we had everything—playgrounds, ballfields, good neighbors, great teachers, coaches who were mentors, and, most important, close families. It was a tough neighborhood, but we had enormous support. If you go back to that same neighborhood today—and I pass by it often—a kid with the same intelligence and the same good family doesn't have anywhere near the chance I had because the community is different around them. It starts with the jobs—the relatively higher paying blue-collar jobs in the steel mills, auto plants, and refineries are gone. The stores are boarded up, the rec center is shut down, the playgrounds are disasters. The only thing left is the YMCA and it's a lot older. The Catholic Church remains, but, in a

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<sup>1</sup> The State of Children in America's Union, Children's Defense Fund, Washington, DC, 2002.

<sup>2</sup> "A Snapshot of Ohio" Fact Sheet, Children's Defense Fund – Ohio, January 2003.

<sup>3</sup> "Ohio's Early Care and Education Funding Crisis", Federation for Community Planning and the Coalition for Greater Cleveland's Children, <http://www.coalition4kids.org/pdfs/90.pdf>, January 2003.

hypocritical action, to me at least, they moved their Catholic school out of the area. That's a picture of my life in the 1950s versus life today, and that's why we focus on the future for children.

During the 1990s—I left business in 1992—I made a concerted effort to try to understand the nonprofit sector. It is daunting, to say the very least, but, as we went through a lot of visits, I experienced certain moments, enlightening times that just stun you. I'm going to share two of them with you because I think they are indicative of our time, unfortunately. The first was in the late 1990s, in the midst of the country's economic boom, when I read an article in *The Washington Post* about violence and a killing in the city. To emphasize the point, there was a picture of a young girl, 11 years old, with her First Communion dress lying on the bed. In the interview, this little girl described that she kept the dress because she wanted to wear it for her funeral.

The second moment I want to mention took place during an afternoon in Hartford, Connecticut, spent with a remarkable young leader, Henry Fernandez. He's now the Economic Development Administrator of New Haven. I was going through the neighborhoods with Henry to a learning center where we had helped out. In the room were little kids, mostly boys. As we left the room, Henry looked at me and said, "The biggest tragedy, even with us here, is that one out of four of those little boys will either be in prison or killed by the time they're 21." I came from a neighborhood that was tough. We saw guys get "messed up," but few lost their lives. Surely, we can't be satisfied with a system that, no matter how good our society, accepts these statistics for our region or for this nation. It's ultimately about the lives of our children, *all* of our children.

Both inside and outside the world of philanthropy and the nonprofit sector, there's much talk about changes and how the field is getting pummeled. Yet, for most of us, if we're honest, we see change needed in others, not ourselves. We stand on the sidelines of change because we fear its implications for ourselves. It's human nature, but we don't want to admit it when that change is right on our personal doorstep.

There is a sea change underway both in philanthropy and the nonprofit sector. This change has been percolating for a long time, though the media hasn't dwelt much on it. The fact that the Mandel Center was created is indicative of the tension and anxiety in this space. This change has been underway since the late 1980s and early 1990s, and it has gained tremendous momentum in the last five years. It has been triggered by shifts in social policy, public and private funding patterns, the generation of massive wealth in the 1990s, a rising tide of intergenerational wealth transfer, major changes in our country's demographics, shifts in social attitudes, and significant economic trends, from the devaluations of our equity markets to American jobs moving offshore because of globalization. We've even seen a "cottage industry" evolve as banks now have "wealth management" groups and there is a new field of "family offices."

The change is immense, bringing disruption and dislocation to the philanthropic and nonprofit sectors, and, ultimately and unfortunately, the final impact will sit with the children and families those nonprofits serve. What's at the core of the unrest? There are a lot of reasons, in many cases starting with public policy, but, at the end of the day, we are asking an enormous task of our community-based organizations. I'm referring to the core group of community-based organizations that are serving children and families, providing health and human services or providing education, daycare, out-of-school programs, and family services. That is the sector we focus on, and it is very different from that part of the sector of universities, hospitals, associations, research organizations, museums, and other notable nonprofit efforts.

I want to read a piece that, to me, characterizes the state of community-based organizations in this country. It's a harsh one:

*Strong organizations are the backbone of effective services. Strong organizations can make long-term plans. Their managers are better able to focus on mission. They invest in management, staff development, and infrastructure that allow them to better define goals, measure progress, and be accountable for outcomes, while supporting program improvement, growing the organization to scale, and delivering the promise of benefit to those they serve. But, the way we fund nonprofits prevents them from doing these things well or, too often, at all. Executives must focus too much time on short-term fundraising versus management and strategic financing. Perversely, their funders, rather than the people they seek to serve, can end up becoming their primary clients. The assessments to which they are subjected are often one-way judgments rather than constructive interaction that help them manage, learn, and improve their organizations. We ask those in the nonprofit sector to take on our most formidable social problems, but we immediately ensure that they can't fully succeed. They're inadvertently forced into a relentless race for resources rather than results. Nonprofits can even be driven to alter or veer from their missions in search of programmatic funding.<sup>4</sup>*

I stated that politely; it's actually worse than this conveys. Rethinking the way the system works, or, at least, the part that supports community-based organizations that serve children and families in our country, in my view, adds up to a dramatic opportunity. It's an opportunity to rethink public policy and philanthropy in nonprofit service delivery in America. One of the biggest leverage points in helping strong leaders grow and strengthen their community-based organizations and helping them to take on greater scale for greater effectiveness lies in changing the funding system itself, both public and private.

An extreme view? Maybe to some, but almost a given to most people in the trenches and probably to many of the leaders here in this room. By the way, in the 10 years that I've been in the field, the issue of the "funding system" has probably been the most voiced reaction when you actually get inside the organizations and talk honestly with the leaders of community-based efforts.

Let's put it into a different frame of reference.

These are trying times. With all the discussions taking place in our ivory towers, academic centers, and boardrooms, we remain unsure of the cost and impact of the welfare reform of the 1990s. We are undergoing a remarkable change in demographics as new Americans change the landscape of the country. We face a federal tax cut that will introduce one of the greatest reductions in funding for services for children of low-income families in the history of our nation. States face the greatest deficits since World War II as analysts project a \$75-90 billion shortfall in fiscal 2004. Most of this will impact areas of funding not mandated, not an entitlement program, and guess what gets hit—child and family services, health and human services, and education (in the broadest sense). Yet, with all this bad news and with the deck stacked against philanthropy and the nonprofit area in many ways, I would also say that there is hope and opportunity. Why? Because historically in our country, the times of great upheaval and dislocation are when we have witnessed unexpected and long-lasting change, such as breaks in the status quo that no one could see coming, sector-improving innovation, and quantum shifts in public attitude. I would argue that we're in the midst of one of these changing environments.

Steve said something earlier of remarkable importance, and it's a credit to him, the [Cleveland Foundation](#), and the other foundations in this city. The hope here lies in the incredible people in our communities who are leading high quality community-based organizations and who have developed workable approaches for dealing with many difficult social problems. Still, I will argue

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<sup>4</sup> "Venture Philanthropy: Leveraging Compassion with Capacity in the National Capital Region" by Mario Morino, Morino Institute, <http://www.morino.org>, June 2000.

that they are not properly supported. In fact, save for very few cases, the last time we saw a community-based nonprofit organization grow to a scale of any significance was in the aftermath of the Industrial Revolution more than two hundred years ago. There is a great opportunity to discover the leaders—not just in this community, but regionally and nationally—who have proven track records, who are emerging with wonderful potential, and who have the desire to push their missions to greater scale in their communities. There is the chance to provide them with resources to build great institutions, to provide them the opportunity to dream, and to recognize and reward them for building these phenomenal institutions.

It is this opportunity that led to the creation of our organization, [Venture Philanthropy Partners](#). VPP, as we call it, is a philanthropic investment organization that focuses on the core needs of education, learning, and development for children of low-income families in the National Capital Region, which includes Northern Virginia, the District of Columbia, and suburban Maryland. We take the regional focus because we believe that it's important—as you realize here, as well—to link donors to their hometown or the region in which they live.

VPP evolved after years of working with people in the field. I'm sure we don't have everything right by a long shot, but we did not do this as a whim. This is not some business guy coming across the line saying, "I've got an idea." We've spent a lot of time with people in philanthropy, people in investing and financial services, and the people in the nonprofit sectors to see what is needed. As I said, I don't know if we have it all right, but here's what we are trying to share. In the year 2001 we did our first . . . we call it "investment." It's really a grant, but we purposely use the terminology of investment because of how we handle the operation. We will operate through 2006 on our current funding base. Whatever happens, we will either leverage this into something else or we'll shut it down. Hopefully, we'll see something better.

Who is involved in VPP? The most critical components are the community-based organizations. Without the leaders of these organizations, we have nothing. Everything starts with them. We're focused on the people, not simply on judging the programmatic value. We depend on experts in their fields who can tell us the leaders in the community organizations who are having—and this is the hard part—*real* impact in the lives of children. I'll argue that it eliminates an awful lot of organizations when you ask, "Is that child really better off at the end of the day—in a lasting way?" The first thing that Michael Bailin, the President of the Edna McConnell Clark Foundation, taught us is to make sure, as best you can determine, that you're with an organization where the outcome for the child is real and lasting—they're really making a difference. Then we try to get behind that leader in the community to see what we can do to help. It is not to change their mission—that's the worst thing we could ever do—but to understand how we can help them develop their management team, grow their organization to scale, and maintain, if not improve, the quality of their services, while not losing the spirit of their mission—what they are in this for in the first place.

Today, we have seven investments underway, representing a capital commitment of just over \$11 million. Our typical social investment is \$2-3 million invested over three to four years. The budgets of these organizations are \$1-6 million a year, so these investments represent significant money to them. The money is not used for operational or programmatic costs, but instead is used to build the organization, so it represents some of the largest amounts of money in the country dedicated to that purpose.

The other interesting part of the equation is that we believe that investors should be engaged. Don't misinterpret that comment. "Engaged" might mean just using their network of contacts to benefit a community-based group. We've seen too many foundations take a standoffish view once the grant has been made. We're just the opposite. We want to do what we can to help. And, in addition to the experience of our in-house investment team, we can benefit from the contacts and leverage of our investors.

Who do we have involved as [investors](#)? VPP was co-founded by Mark Warner, who has since gone on to become the Governor of Virginia, Raul Fernandez, the founder of Proxicom, and myself. The three of us reached out to 27 other individuals and families. This group includes Steve and Jean Case, the founders of AOL, and Jeong Kim as investors. Steve and Jean have created the Case Foundation and are involved in a number of major philanthropic efforts. Jeong is one of the most remarkable people I've met in my life. He is of Korean descent and probably hasn't yet turned 40. He sold his firm for \$1 billion in cash to Lucent and he has a long-term social mission. He's going to help Asians get a solid grounding in life. It's his deep conviction. George Kettle has a deep Christian faith. He built Century 21 in the mid-Atlantic region. There's Steve Denning who runs General Atlantic Partners, the largest global investor in information technology. And, Jack Davies, past president of AOL International, is now on the VPP Board and directly involved with two of our investment partnerships. We want to use our investors' leverage to open up doors to experts in their field, in Congress, in mayors' offices, and with other funders to overcome resource constraints so the leaders can accomplish things. If we've picked the right leader and if we've opened the doors, we find that they run right through them and get things done. We don't have to do much at that stage since the messenger is everything in some of these cases.

What's VPP all about? In the first five years, we hope to do 10-12 of these investments. Hopefully, many children will benefit in the region and there will be a core of relatively strong organizations that have achieved sustainability when we phase out. But, this is about a much bigger issue. Honestly, what we're trying to do is earn a place at the table and become a respected voice in the field of philanthropy. Ultimately, this is about increasing the effectiveness and the volume of capital and talent that flows into the nonprofit sector serving children. If you want to see a very disappointing statistic, the Brookings Institution completed a survey last year showing that the interest of college students in going into the nonprofit field has markedly declined. This is after 9/11, not before. These kinds of trends have to be turned around. We desperately need talent, and we desperately need capital of a much greater scale to see the kind of effectiveness in organizations that could help them grow and be much stronger.

Our mission is very simple: To help great leaders with high quality organizations build great institutions. It's simple, and it means going way beyond where they are today. How do we do it? Our heavy lifting starts after we make an investment. Making the grant is important, but that's probably the smallest part of our job. We believe—and for those who have been around the investment side, this is going to sound pretty basic—there are six fundamental levers. Steve has already spoken about two of them. If you can't affect these six levers, you might as well leave because you're just rearranging deck chairs on the Titanic:

- Build strong executive management teams.
- Create highly effective, engaged boards of directors.
- Gain clarity of mission and desired outcomes.
- Develop financing and funding sustainability.
- Improve and scale products and services.
- Help an organization learn how to manage to outcomes, while establishing a transparent accountability to themselves and their stakeholders.

If you can help create improvements in these six areas and the organization is already delivering effective, high quality programs and services, we maintain that you can help an organization markedly change. Our job is to put the resources behind the leader who believes in this strategy to help them grow their organizations. You cannot impose the strategy. The community-based organization must openly embrace this kind of engaged relationship.

In what do we invest? Great leaders, hopefully with good management skills, not management in the absence of great leadership. We cannot replicate leadership. We invest in organizations that are achieving outcomes in the lives of children, that have a high potential to have impact on thousands of children, or that aim to fundamentally reset performance expectations in their field. We invest in really good community-based organizations that have bold goals that can grow in scale. We do not invest because an organization is well-regarded or because it is a good nonprofit. This is not about maintaining status quo; it is about breaking the status quo. We invest in organizations having relatively strong diversified financing and funding and the potential to achieve financial sustainability.

Let me give you an example of one of our [investments](#). There's an organization, which a number of people here in Cleveland know, called the [Center for Multicultural Human Services](#) in Falls Church, Virginia. They've actually consulted to [Catholic Charities](#) here. The leader, Dennis Hunt, is a nationally known figure in clinical psychology. They have a mental illness intervention process specifically aimed at immigrants and, more specifically, refugees. The Washington, DC region, by the way, is the fifth largest immigration center in the United States. To give you an idea of the respect this nonprofit deserves, consider that the Department of Health and Human Service made grants of \$1 million to three institutions in the country. One was Yale University, one was UCLA, and the other was this nonprofit. The consulting firm McKinsey & Co. did a national scan and could not find a comparable model in their field. The uniqueness of what they do? When they intervene in mental illness cases, they serve the client in his/her ethnicity – language and culture. Their staff members speak 29 languages fluently, and over half have advanced degrees. They have a remarkable quality of clinical delivery. They're being called into other states, even countries, and they're taking the time, with our support, to invest in their infrastructure, their management, and their board; otherwise, the impending strong demand could implode an organization not ready for such growth. That's what we do. We helped them recompose their board and we're investing \$3 million in this organization. Dennis Hunt will tell you that going through a seven-month planning process with McKinsey was transformational for him and his organization.

Let me be clear. I don't want to even begin to imply that this is the way all philanthropy should be done. In fact, we and others have yet to prove that this approach works. There are many good, effective approaches, but, in the area of community-based organizations, there is a tremendous need to build anchor organizations in our communities—strong intermediaries and strong providers that will help support the rest of the nonprofit food chain. We have a tremendous lack of those organizations, especially in youth development and education outside of our public schools. We don't have the infrastructure that we have in community development or healthcare. Youth development is almost devoid of a significant architectural intermediary, and that's an area where this kind of strategy could work.

The trouble is that we're in the midst of what we call "the perfect storm." It's a combination of factors including:

- reduced funding across the board, something that's probably of great significance for years to come;
- significantly increasing demand for services, happening for many reasons, and with nonprofits being asked to take on even more public service delivery; and
- the fact that too many nonprofits exist. I don't know if you realize it, but the growth in community-based organizations has been astronomical and that dilutes the resource allocation. We are seeing monies filtered to a variety of people, so the best go wanting as it's spread across a host of less effective groups.

Who suffers? The children and their families. For a nonprofit sector already undercapitalized and suffering fundamental cracks, the perfect storm implies profound change in the years ahead. How might we advance systemic change? You in this room probably know it better than I, but ideas to consider include:

- Reallocate more capital and more effectively channel that money to high-quality organizations.
- Create a greater link between performance and the reward structure, and here I don't mean performance in terms of an evaluation, but, rather, I mean improvement in children's lives.
- Establish agents like Venture Philanthropy Partners and the Edna McConnell Clark Foundation with staffs that can help great leaders build and scale their organizations and not get bogged down in the details of capacity building or technical assistance. If you have the wrong management and lack the right board, all the other tinkering does not matter.
- Be more substantial and rigorous in organizational analysis when doing grants—not just the programmatic areas—because that's what's going to tell whether the proposed effort is feasible.
- Put our money where our mouths are. If we want outcomes, pay for them. Quit asking for numbers that the nonprofits can't give you, because they can't afford to get them to you. For 30 years I did information systems in the corporate world. Putting numbers together is expensive; reporting to you is tough. If you want outcomes, put the money on the table. We're doing it, Kellogg's doing it, and, these aren't \$10,000 grants, they are six-figure investments. That helps make it work.
- Be strategic. Be engaged when it makes sense to add value. Be respectful in how you do that, and leverage your resources in context. If we don't think and act differently, we'll be having the same discourse 10, 20, and 50 years from today, except the numbers will just be bigger.

By the way, the numbers haven't changed. Terri Freeman, a great leader who runs [The Community Foundation for the National Capital Region](#), lamented when she looked at the child abuse numbers in a recent study and found, relatively speaking, there has been no meaningful decrease in numbers for decades. Not one change in the numbers. Our focus is on children because we believe they are our future. We have to increase the support and step up our advocacy for children, which has basically been less than effective in the last six years. That's a harsh comment, I know. We've lost our power on Capitol Hill. The issues for children, and I beg of you to think about this, have to be elevated somehow to the same national profile as when we battled the environmental issues, when we took on cancer research, and when we took on the tobacco industry. If we want to save children, we're going to need that level of advocacy and pressure on the Hill and in our municipal and state governments to see the public policy change that is required. It begins here at home, and I do call Cleveland home, by the way. There are no easy answers, but it starts with looking inward. I would argue that our challenge is to think bigger, to think differently. The wonderful thing is that you have such a tremendous base to work with.

I would like to go back to Ed Hundert, the President of [Case Western Reserve University](#), and one of the first meetings he had with the Board. It was a very informal comment, but he caught my heart immediately when he said that what we needed was a unifying vision to overcome all the medical arguments and issues with hospitals and delivery agents in Northern Ohio. Then he put a wonderful idea on the table. He said, "Why can't we make Cleveland the healthiest city in

America for children. All children?" You know, it is actually doable. This city is large enough in size and has such a wonderful internal engine that it could be done. We have a clear aspiration, but if we follow a top-down implementation approach like getting all the CEOs together, mapping a structured strategy, and imposing a vision on the region, then it will fail. Ed and others at the University, as well as other interested people, understand that while we need the support of the CEOs and their businesses, we need to reach deep into the community, into the neighborhoods to learn their needs and discover and involve their leaders. And, we need to leverage the truly great health institutions that we have here in this city. Wouldn't it be remarkable to be strategic, engaging high-leverage investors in helping fulfill this vision for Cleveland? Can you imagine the impact it would have, helping our community-based leaders in all parts of the region build and strengthen their organizations to improve the health of children? Helping them to become great institutions in their own right, and to develop a local health-service delivery network for children anchored by the Cleveland Clinic, Case Western Reserve University, University Hospitals, Veterans Administration Hospital, and Cleveland Metropolitan Hospital?

It is all about changing the effectiveness and flow of capital and the talent to make it happen.

Thank you very much.