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A FRESH APPROACH

What's Wrong With Profit?

By **STEPHANIE STROM**

THIS year, as never before, the line between philanthropy and business is blurring. A new generation of philanthropists has stepped forward, for the most part young billionaires who have reaped the benefits of capitalism and believe that it can be applied in the service of charity. They are “philanthropreneurs,” driven to do good and have their profit, too.

Among them are eBay's founder, Pierre Omidyar, who wants to use investment capital as well as donations to expand the microloan industry, and [Stephen M. Case](#), the co-founder of America Online, who is investing \$250 million in companies that help consumers gain control of their health care.

Young companies are involved, too: when Google announced its philanthropic effort this year, it unveiled a venture-capital fund rather than a foundation.

The approach of these philanthropreneurs reflects the culture of the business that brought them their wealth: information technology, with its ethos that everyone should have access to information. By their way of thinking, the marketplace can have the same level-the-playing-field impact, and supply the world's poor with basic needs like food, sanitation and shelter.

“More and more people are asking who else is going to finance doing good if government isn't,” said Alan Abramson, director of the nonprofit sector and philanthropy program at the Aspen Institute, a public policy think tank in Washington. “These guys have firsthand knowledge of the market's power, and they're asking themselves why they can't make money and tackle some of the problems once addressed primarily by government at the same time.”

It sounds simple, but the idea of such hybrid philanthropy is upsetting long-held conventions. These new philanthropists view the current foundation model, built on the fortunes of earlier industrial titans like Carnegie and Rockefeller, as hidebound and often

ineffective. They have an urge to change the world, and argue that in some cases only the speed of capitalism is fast enough.

“We need to be open to bigger, bolder reform because the hard truth is Philanthropy 1.0 hasn’t worked well enough,” Mr. Case told a group of foundation executives in January. “If you’ll forgive the computer metaphors, our system needs an upgrade.”

An upgrade had been in the works courtesy of [Bill Gates](#), the Microsoft chairman, who had already leveraged the power of the information technology industry in creating the [Bill and Melinda Gates Foundation](#), with its tens of billions of dollars in assets from him and, more recently, from the investor [Warren E. Buffett](#). The Gates Foundation has led the way in focusing on problems of the underdeveloped world, like disease. But its impact is as much from its size as its way of doing business: it is mostly a traditional philanthropy, writ large.

What the philanthropreneurs have in mind is something different, and it is producing some confusion, as evidenced by an exchange in September on “Late Show With [David Letterman](#)” between Mr. Letterman and [Ted Turner](#), the founder of CNN and a man who knows something about melding business and philanthropy.

Mr. Letterman asked his guest about a plan announced earlier that day by another philanthropreneur, Sir [Richard Branson](#), to “donate,” as Mr. Letterman put it, \$3 billion to develop greener fuels.

Mr. Turner cut him off: “It’s not a donation.”

Rather, he said, it was an investment. “He’s probably going to make more off that investment than he has in everything else,” he said.

Experts in philanthropy are not so confused, but they are not bowled over, either — at least not yet.

“I come at this from at least a wonderment of what are the advantages the melded or hybrid model brings,” said Mark Rosenman, a professor at the Union Institute and University in Cincinnati and an expert on nonprofit matters. “Though I have no problem with philanthropy and socially responsible business being joined, I do have one with a for-profit enterprise being called philanthropy.”

“I see no clear reasons to begin to develop corporate structures that need to consider themselves more closely aligned with philanthropic purposes,” Mr. Rosenman added.

He said such structures already exist, citing businesses like the Body Shop, which uses its stores and products to inform consumers about human rights and environmental issues and trades with indigenous peoples for supplies and materials.

Mr. Case points to the [National Geographic Society](#), a nonprofit group that is sustained by sales of everything from magazines to toys.

“It has basically become a billion-dollar business set up as a nonprofit,” he said. “It doesn’t have to focus on collecting money or holding black-tie balls to raise money because its sales are sustaining its mission of educating the world about the world.”

So far, there is little criticism of the hybrid proponents, perhaps because they seem to have little interest in capitalizing on the tax benefits of their philanthropy. Google, for example, will pay taxes should its new fund produce returns, and Mr. Omidyar foregoes about \$1 million in tax benefits by mixing his philanthropy with business.

Mr. Turner is a relatively old hand at ground-breaking philanthropy, having stunned the world in 1997 with a \$1 billion pledge to the [United Nations](#), the largest single pledge ever at the time. But he shares the philanthropreneurs’ impatience with the lines drawn by legal, regulatory and tax regimes between business and philanthropy.

“There’s no way you can invest in polio vaccines and make money,” he said. “But developing solar panels, that has profit potential and it’s good for the environment. Certain areas of making the world better do lend themselves very comfortably to for-profit operations. Why should we be afraid of that?”

Here are profiles of four who are not afraid.

Jeffrey S. Skoll

Almost every philanthropreneur starts with a foundation, and Jeffrey S. Skoll, the 41-year-old former president of eBay, was no exception. He worked on the creation of the eBay Foundation, which introduced him to a “certain breed of nonprofit leader that really appealed to me,” and creating a foundation to back them with his own money just made sense, Mr. Skoll said.

“I had gone from living in a house with five other guys and eating leftovers to all of a sudden having financial resources beyond belief,” he said. “It seemed like a good way to put it to productive use.”

He said his dream as a youth was to become a writer who would inspire people and inform them about the world’s problems, but he got sidetracked and became a billionaire instead. So he created the Skoll Foundation in 1999 and over time has put \$613 million into it, some \$90 million of which has been committed to social entrepreneurs and their nonprofits, like the Institute for OneWorld Health, a nonprofit drug company, and KickStart, a nonprofit business that develops low-tech agricultural machines.

A year later, he started a personal investment fund, Capricorn, and in 2004, he started a film production company, Participant, that has quickly gained prominence for films like “Syriana,” “Good Night, and Good Luck” and “An Inconvenient Truth.”

He also has a social networking affiliate, participate.net, which offers users ways to participate in various social movements by helping them send letters to Congress, obtain coupons for low-energy lighting and compare the fuel efficiency of cars, among other things.

“The heart of eBay, what made it so successful, wasn’t so much the buying and the selling, which was its economic side, but the facilitation of these relationships in its public forums and question-and-answer areas,” Mr. Skoll said. “I think these days, people want to join with other people to make change. It’s about leverage.”

His nonprofit and for-profit ventures leverage and support each other in the same way. “An Inconvenient Truth” examines [global warming](#) and climate change, and his foundation supports Ceres, a nonprofit group that works to persuade investors to factor environmental stewardship into their analysis of businesses.

Through Capricorn, Mr. Skoll has invested in Falcon Waterfree Technologies, maker of a waterless urinal and known among the Skoll entities as the “yuck investment.” Falcon says that one of its urinals saves 40,000 gallons of water a year and reduces wastewater treatment costs. The urinals can be found everywhere from schools in Florida to the Taj Mahal in India.

“The idea is that everything, all the resources I have, go into doing good,” Mr. Skoll said. “Ultimately, most of the money I make through Capricorn or Participant will go to the foundation, but in the meantime, there’s no reason they can’t do good, too.”

Stephen M. Case

One would think Stephen M. Case, who is 48, would avoid anything blended or hybrid after the experience he had as part of the team that knit America Online and Time Warner together, one of the messiest mergers in corporate history.

But he has become one of the biggest proponents of hybrid philanthropy. “I think where the lines blur is where it’s most interesting,” Mr. Case said.

The Case Foundation recently put \$5 million into PlayPumps International, a nonprofit group that has developed a new approach to increasing access to clean water in African villages. In a nutshell, a merry-go-round installed in a schoolyard pumps water from the ground into a holding tank, and families draw water from the tank.

Like any charity, PlayPumps raises money to buy the equipment. Governments contribute by handing over boreholes and wells. A for-profit company, Roundabout Outdoors, places ads on the sides of the water tanks, which generates the money needed to maintain the system.

“There have been many well-intentioned projects related to water in Africa, but what typically happens is that after the initial investment is made, no money comes in to sustain them and they break down and that’s that,” Mr. Case said. “If all PlayPumps did was install 10 million water pumps by 2020, it would be a great accomplishment, but we’ve gone the extra step and created Roundabout to build a revenue stream that will ensure those pumps keep working.”

Seeking to replicate the model in another area, he founded Revolution in 2005. Its mission is to invest in companies that give consumers more choice and control over everything from health care to car ownership.

One such company is FlexCar, which links consumers who want to share a car rather than own one. A member signs up for one of FlexCar’s plans and then can reserve a car for pick-up at a specific time and place. Started in 1999 as a public-private partnership

involving the city of Seattle and King County, Wash., FlexCar has expanded to Portland, Ore.; San Francisco; Los Angeles; San Diego; Washington, D.C.; and Atlanta.

The attractions for Mr. Case are twofold. FlexCar gives consumers an alternative to car ownership at the same time it helps reduce traffic, pollution and energy consumption.

The company is turning a profit in its most-established markets, and revenues are growing, according to a spokesman for Mr. Case.

Then there is Accelerate Brain Cancer Cure, or abc2, a nonprofit the Case family started six years ago in hopes of accelerating research to find a cure for brain cancer, which killed his brother Daniel in 2002. Abc2 has underwritten research on brain cancer therapies and fostered collaboration between researchers, companies and government.

Mr. Case has also created a venture capital fund, Braintrust Accelerator, to invest in companies working to develop brain cancer cures. A share of any profits it realizes will go to abc2.

“I’m aiming for a more flexible tool box, not just looking at things through the prism of philanthropy or the prism of business but a fresh creative approach that uses the best of both,” Mr. Case said.

Pierre Omidyar

Pierre Omidyar is just 39, but in some ways, he is the granddaddy of philanthropreneurs.

Dissatisfied with the momentum and impact of money he distributed through a traditional foundation created in 1999, Mr. Omidyar all but yanked the plug on it in 2004, when he started the Omidyar Network. The Network is the vehicle through which he runs his for-profit investments and nonprofit gifts, as well as a place where the online public can network.

“We tried what I would call active philanthropy, where we were working through the foundation with nonprofits to improve their ability to execute, provide guidance, help with professional development,” Mr. Omidyar said, “and we learned a lot of lessons, some good and some not so good.”

As he worked through that process, he began to see eBay and the 200 million people using it in a new way.

“I could see regular people coming in and saying, ‘eBay changed my life because now I feel I contribute to the household’s finances,’ ” Mr. Omidyar said. “There was a sense of empowerment even in those early days, and it increasingly became clear to me that eBay has had a huge social impact in the process of running its core business, and it wasn’t a philanthropy.”

He has turned his foundation into a roughly \$200 million fund to invest in nonprofit ventures and paired it with a similar amount of money dedicated to investment in for-profit ventures. About \$21 million in philanthropic money has been invested so far in organizations like Rare, which trains local conservationists around the globe who it hopes to link online, and Youth Noise, a social network for young people interested in social causes.

While those organizations are structured as charities, in many cases they are similar in feel to some of the companies in which the Omidyar Network has made investments, like Prosper, an online person-to-person lending business, and the Enthusiast Group, which works to build online communities of fans of sports and other activities.

Nowhere is the distinction between Mr. Omidyar’s for-profit and nonprofit activities more muted than in the area of microfinance, where he has invested more than \$33 million, half of it philanthropic.

“If you look at the Grameen Bank, that is a business, you can’t call it anything else,” he said, referring to the bank that makes small loans to the poor in Bangladesh. “Its revenues are greater than its expenses, and it is tremendously effective in pulling people out of poverty. It is proof that you can have it both ways.”

In addition to putting \$4 million into Grameen’s nonprofit arm, the Grameen Foundation, Omidyar Network has supported nonprofit groups like Unitus, which works to develop microfinance institutions and the International Development Law Institute, for its work on developing law to support the growth of the microfinance industry.

On the for-profit side, it has invested in BlueOrchard Microfinance Securities, which packages loans made by microfinance institutions and sells them to institutional investors,

and the Global Commercial Microfinance Consortium, an investment fund aimed at increasing the ties between banks and microfinance groups.

On top of that, Mr. Omidyar and his wife, Pam, gave [Tufts University](#) \$100 million that must be spent on developing microfinance. Thus, private capital, philanthropic capital and investment capital are directed toward a single over-arching goal, the creation and expansion of microfinance. “We’re trying to take what a physicist might call a systems-level view and look at how all the sectors, government, business, nonprofit, are interacting and how they can work together for social benefit,” he said.

Sir Richard Branson

Sir Richard Branson, who is 56, has long mixed it up, building his Virgin Group business empire to encompass airlines, cellphones, record stores, credit cards and pet insurance. In that context, his announcement that he would invest \$3 billion in the development of alternative fuels was par for the course, right down to the hubbub that surrounded it.

“We have two separate arms, Virgin Unite, the charitable foundation, which is pure giving, and then this hybrid thing, which is our venture capital-charitable unit,” Sir Richard said. “It may be giving, it may not be giving, depending on how things turn out.”

The promised investment in alternative energy is an example of what that venture-capital unit is doing, deploying the entrepreneurial flair and skills that have made Sir Richard a billionaire to tackle major global issues like poverty and climate change. “Although it’s very risky capital, hopefully it won’t be wasted,” he said.

He considers Virgin Nigeria, the airline he started in 2004 to serve West Africa, another example of such a for-benefit business because, he said, an airline is crucial to wealth creation. “We may fall flat on our face,” he said, “but we’re trying to do good and make money.”

Sir Richard was on the way to Mozambique to explore the possibility of extending the sugar production so abundant across the border in South Africa to that war-scarred country. His idea is to rid the fields of mines planted during Mozambique’s civil war from late 1970s to the early 1990s and plant sugar that could be converted into ethanol, tasks that would in turn put thousands of people to work.

“There are number of challenges all rolled in to one, but that’s why I like it,” he said.

Virgin is also working to create businesses that have the socially beneficial aspects of a charity but produce income to sustain themselves, perhaps with a little help from philanthropy. It has teamed up with Anglo Coal, a subsidiary of the big South African conglomerate, Anglo American PLC, and the United States government, to open a clinic in South Africa that provides basic health care for a fee — and drugs to treat [H.I.V.](#) and AIDS, tuberculosis and malaria free. The hope is that the fees generated will cover the costs of the basic services.

“The hospital cost \$1.5 million,” Sir Richard said. “If it saves 60,000 lives, that’s good entrepreneurialism as well as good charity work.”

He said he would not try to defend Virgin’s efforts from charges that they are really thinly veiled marketing tactics.

“If I’m 90 years old and people look to the Virgin brand and say that’s the brand they respect most in the world, I would be happy,” he said. “Now, if we can in my lifetime come up with a fuel that is a clean fuel and does something to help save the world from global warming, that will be good for the brand, something everyone who works for Virgin can be proud of, but it will also be a good thing for world, too.”