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FUNDRAISING

The New Nonprofit IPO

A unique funding model goes beyond donations and offers funders a tangible stake in organizations they support.

By Andy Posner & Mollie West | 20 | Jan. 29, 2014

In 2007, Homeward Bound of Marin County, a social service agency for the homeless, was able to leverage the star power of Warren Buffet to raise more than $1 million. As *The Wall Street Journal* reported, Buffett bought the first share of the organization's immediate public opportunity (IPO)—Marin's nonprofit version of a for-profit IPO. This begs the question: What caught the eye of the Oracle of Omaha?

Let's not mince words: Nonprofits are starved for growth capital. As Dan Pallotta noted in his phenomenal TED talk, "The way we think about charity is dead wrong." Since 1970, 46,000 for-profits have crossed the $50 million annual revenue barrier, as opposed to only 144 nonprofits. That's shocking. The most effective and economical way to solve big problems is not 10,000 organizations serving 100 people per year, but rather 100 operationally and programmatically excellent organizations each serving 10,000.

Why? For one thing, the more services a nonprofit delivers, the lower its cost-per-unit should be. Second, there's a reason why big companies are big and why those companies can convince start-ups to sell to them: Market share, growth capital, and top-notch personnel are all tremendous advantages for young ventures. What's ironic is that, rather than selling sugar water (which, at the end of the day, isn't that hard—it's sugar, after all!), most nonprofits and social enterprises are selling hope, justice, and opportunity. These organizations are the ones that need the best ad campaigns; the best technology; and the best legal, consulting, branding, and other services. What's more, the impetus for nonprofits to grow is also a financial matter; many nonprofits operate a very high-volume, low-margin business. For instance, in the microfinance sector, organizations such as ours make little profit per loan and therefore need to lend out many loans to cover expenses.

This problem led the employees at Homeward Bound to ask: What if nonprofits could have their own unique version of for-profit IPOs? At the Capital Good Fund, our ears perked up at the mention of the concept. It struck us as an excellent branding and growth tool, and we followed suit. Capital Good Fund is a nonprofit that uses financial services—one-on-one financial and health coaching, personal loans, and free tax preparation—to tackle poverty in America. Five years after our founding, we are proud of our growth, and we've been reasonably successful with traditional funding (we have, after all, kept the lights on). However, we haven't come close to securing the funds we need to reach 10,000 families in a year, let alone 100,000 or a million. Just look at the numbers: The 3,500 families we've served in five years is impressive, yet that number barely scratches the surface of the 100 million Americans that live at 150 percent of the poverty line or below. And we've been at the grant-writing and donor-outreach games long enough to recognize that only a fundraising paradigm shift will enable us to become a national organization.

This is why we recently launched our own IPO to end poverty. The concept certainly jumps out at you from the crowded field of donation pitches. The goal of the IPO is to raise unrestricted funds by using a unique model: For every $25 donated, the donor receives one "social innovation share." Each share entitles the shareholder to a vote at the annual meeting on a board of directors seat. Shareholders also have exclusive access to the organization's quarterly financial and impact reports, as well as shareholder-only conference calls.

The idea for a nonprofit IPO was first floated in the social innovation community in 2006. A Fast Company article mentions how both Teach for America and College Summit, a nonprofit that helps low-income students attend college, started offering "private placements" for investors to become venture funders. Teach for America is a model for growth in the social innovation world; Harvard Business School has written four separate cases about the organization.

Yes, one could call the IPO a gimmick—at the end of the day, a share is a fancy term for a donation. But that misses the point. Just asking someone to *purchase a share*, as opposed to *donate a dollar*, has a different feel to it. From a behavioral psychology perspective, the IPO taps into the human need for reciprocity. We like to get something in return for what we do, even if it's a certificate, the title of shareholder, and the ability to vote to elect a board member. And what makes our approach unique is the notion of giving shareholders a real, tangible stake in the organization, one that is about more than just a donation.

That said, there are still challenges. We are caught in the classic catch-22: For the IPO to succeed, we need to aggressively market it—yet we lack the money to pay for that marketing. On the whole, though, we feel that this approach gives us another tool in the fight, not so much against poverty as against knocking down the barriers to earn the revenue we need to fight poverty.

Mollie West is a research associate at Harvard Business School, where she coordinates a research project for Professor Michael Porter and Dean Nitin Nohria, which aims to track how leaders of complex organizations spend their time. Before Harvard, Mollie co-founded the Capital Good Fund (@cgfund), an innovative microfinance fund in Providence, RI, and is currently on the board of directors; she graduated from Brown University.

Andy Posner is the executive director of the Capital Good Fund, and as co-founder he developed a model for innovative microfinance as a master's student at Brown University. Additionally, Andy is a co-founder of the Campus Microfinance Alliance and a member of its advisory committee, and he is also a member of the national board of directors of the Association for Enterprise Opportunity.

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