

BEST OF LEAN STARTUP

# FUNDING RISK IN MISSION-DRIVEN STARTUPS

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Oct 2, 2014



Learning from experimentation shouldn't be limited to the private sector, but how do nonprofits justify taking risks when real lives are on the line?

Consider the following method for reducing risk: Learn what your customers want and need by testing out product ideas with them early on, and then adjust accordingly as you build. After all, organizations in every sector unwittingly lose time and money when they build products and services for customers whose needs they haven't *validated* with real-world tests. But in the social sector, learning about real needs through experimentation can *itself* be risky because foundations and other investors generally expect to back projects where the problem is well-defined and the solutions look clear.

Of course, as countless well-intentioned organizations have learned, [it's likely that the solutions you've envisioned won't work for the population you're trying to reach](#). And the more innovative and unknown your ideas are, the more important experimentation becomes as a way of reducing risk. But what to do when that approach looks to many funders like you're *seeking* risk?

At the [2013 Lean Startup Conference](#), Christie George, Executive Director of New Media Ventures, offered a way to address this problem: Change the way social projects are funded at their earliest stages. Risk-enthusiastic backers do exist, she said, including at her own organization:

**Who pays for social change? Often it's foundations and individual donors, and the truth is that funders have a hard time taking risks. It makes sense, right?**

**Supporting a new effort that has a spectacularly high risk of failure and success is actually a pretty difficult proposition. So we actually need to change the way that we fund people to solve big problems. We need to figure out ways to incentivize risk, but also in a way that doesn't penalize social innovators when things don't go as planned. And basically, everyone in this room knows**

that things never go as planned.

At New Media Ventures, we noticed that we were actually being conservative in supporting established startups rather than truly early stage ideas. So we created something called the [Innovation Fund](#) with a lightweight application, a quick turnaround time, and \$25,000 of seed capital for people to build a prototype. It was modeled after something that the Knight Foundation does, called the [Prototype Fund](#).

But there's actually need for funding at even earlier stages than that. So I love what the [Awesome Foundation](#) does in giving out \$1,000 grants monthly via chapters all over the world. One of the reasons that I find this so exciting is not just the awesome projects that they support, but the actual democratization of who is funding those projects. [The Pollination Project](#) takes this one step further and gives a \$1000 a day to social change projects.

While the phrase "[Fail forward fast](#)" has been touted in for-profit companies of late, the same is not true in non-profit organizations, which often have to prove their success in order to get funding. If you're a social entrepreneur, and you've taken big risks that failed, you may have even been reluctant to discuss them—despite their proving how much you've learned—because foundations and other major backers look to support success and aren't familiar with idea that failure generates very valuable information. Christie explains:

We also have to create a culture where the truth is incentivized. [The Unreasonable Institute](#) is an accelerator out in Boulder and they've got an entire section of their website dedicated to their own failures in the sector. [Engineers Without Borders](#) comes out with a failure report annually to profile the projects that didn't work.

And then, most interestingly is [The Worst Grant Contest](#) at the [Hewlett Foundation](#). It's not what it sounds like; it's not the worst performing organizations. It's actually the strategies that worked the worst within the foundation.

Learn more about risk and failure in the social sector by watching or listening to Christie's 11-minute talk below. We've also included the full, unedited transcript at the end of the post.

*Christie George is the Director of [New Media Ventures](#), the first national network of angel investors supporting media and tech startups that disrupt politics and catalyze progressive change. At New Media Ventures, she has overseen the investment of over \$4 million into a portfolio of non- and for-profits, including [NationalField](#), [Sum of Us](#), and [Upworthy](#). She serves on the board of the [Roosevelt Institute](#) and was named a Social Citizen Ambassador by the Case Foundation. Follow Christie on [Twitter](#).*

Christie George, Funding for Lean Impact, The Lean Startup Conference 2013 – 12/10/13



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## Jargon, demystified

*Includes terms from the talk that we didn't quote above. If there was a term you didn't know that we haven't defined, please let us know—we want to help! Also, if you have a better definition or an addition to a definition, [shoot us a note](#).*

**VC.** Short for venture capital, this is a type of financing provided by investors to potentially high-growth startups. In exchange for providing investment, VC firms get equity—i.e., partial ownership—in the companies they've funded. VCs fund startups, though they generally come in after the very earliest stages. *Entrepreneur's* got [a useful run-down of what this looks like](#), and Investing Answers provides [a pretty hefty definition](#).

**Angel investors.** While venture capital funds are made up of a group of investors, angels are [high-net worth individuals](#) ([Investopedia offers a bit more info](#) on what that means) who usually invest in startups' earliest stages. Angel investors are frequently motivated less by financial and more by personal reasons: they may be friends with the founder, interested in supporting the cause that the startup will benefit, or working to promote a certain cause within the entrepreneurship community. For example, the [Pipeline Fellowship](#) trains women, who have historically been underrepresented in the angel investing community, to invest in startups founded by women. [This guide at Entrepreneur](#) rounds things out a bit more.

**Lean Impact.** Adapting [Lean Startup principles](#) to social-sector organizations, lean impact is a method of running an organization that encourages experimentation and feedback over planning and intuition. Check out [Lean Impact](#), an organization that provides resources and support to mission-driven startups.

**A/B testing.** Also known as split-testing, A/B testing is a method of offering different choices to equivalent groups of customers, and then comparing which choice your customers use most or like best. An A/B test may be as simple as giving a handful of website users the opportunity to click a blue button, and others to instead click a green button; you then go with the button that draws more clicks. While Brick Marketing offers a good definition of [the simplest form of A/B testing](#), it [can get more complex](#), as [Wyatt Jenkins explains in this talk](#), and you can apply it to larger ideas, as [Eric Ries discusses](#), to help you gather useful data about your customers.

**Y Combinator.** A prominent [Silicon Valley-based accelerator](#) that offers seed-stage money and a development program for young startups. [Seed-DB defines seed accelerators](#) as competitive programs that typically provide mentorship for very early-stage startups through workshops, professional connections, and funding.

**Customer development.** A method of testing out product ideas with real people in order to better understand your customers. It was developed by [Steve Blank](#), who calls it “a systematic approach to ‘getting out of the building,’” which—unlike in your head—is where you can find real information about your customers. [We've got a meatier definition over here](#).

**Impact funding.** Also called impact investing, these investments back organizations, funds, and companies that intend to solve social and environmental problems while also turning a profit. Over at the Global Impact Investing Network, they've got a [solid, lengthy definition](#) of impact investing.

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## Links, linked

[The Gallup Poll Christie mentions at 5:49](#) [gif]

[Data Set from The Media Impact Funders, the Foundation Center, and Guidestar, tracking where money is going, from 8:59](#)

[Link to Landscape Analysis of civic technology investment from the Knight Foundation at 9:09](#)

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## Full Transcript

[Expand the full transcript](#)

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