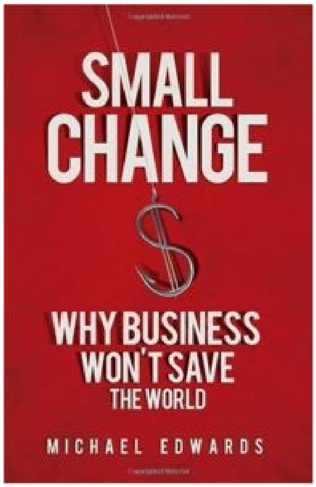

Book Small Change

Why Business Won't Save the World

Michael Edwards
Berrett-Koehler, 2010
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Recommendation

Popular wisdom says that nonprofit entities could achieve reform and efficiency best by acting like for-profits, and that being businesslike is the finest all-purpose path for organizations addressing the world's problems. Social activist Michael Edwards disagrees. In this thoughtful, articulate argument, he enumerates – without ever slipping into polemic – the pitfalls in that line of thinking. He explains how nonprofits develop their own methods, and how vulnerable their processes are to inflexible thinking. He discusses with clarity and rigor the likely role business tactics could play in solving pressing issues, and he examines how capitalism and philanthropy do and do not work together. At first, this fascinating discussion seems contrarian, but it gains common sense as it goes along. *BooksInShort* highly recommends this book to those who want to know how capitalism and philanthropy unite, to those who are interested in changing the world (or even the street) and, of course, to anyone with billions who wants to shift the social dynamic.

Take-Aways

- "Philanthrocapitalism" calls for a businesslike approach to philanthropy and says nonprofits should function like profit-making firms.
- No evidence shows that market tactics solve social problems better than "traditional government and civil society activism."
- Funders should not hold nonprofit entities accountable for meeting for-profit goals.
- Business and charitable priorities are very different in terms of measurability, time pressure, performance standards, metrics and results.
- Businesses work with charitable causes in numerous ways, such as "social investing."
- Philanthrocapitalists say market competitiveness increases the efficiency of social processes. Instead, competition can force nonprofits away from hard issues.
- Business should act "more like civil society, not the other way around."
- Conversely, nonprofits should use businesslike methods when applicable.
- Taking on "social responsibility" invariably reduces a company's profit.
- To bring about social change, include all possible parties, let the disenfranchised speak, reduce bureaucracy and shift priorities to solve the more intractable problems.

Summary

"Philanthrocapitalism" – Marrying Philanthropy and Business

This is the age of philanthrocapitalism, when business leaders insist that nonprofits should be run like for-profit firms. Donors want control of a charity's policies in exchange for their funds. Well-compensated CEOs leave their posts to try their management styles on community organizations. Billionaires contribute millions to charitable causes of their own devising. Business publications laud this new paradigm, though less so now than during the ascent of the overheated economy. The prevailing notion is that nonprofits, government agencies and charities need only hard-edged business acumen to show quantifiable results or, conversely, that their leaders should run them on a more efficient economic basis, including an actual operating profit.

> "Capitalism must be the servant, not the master, of democracy and the public good."

However, commercial methods are not appropriate for all altruistic tasks. In fact, the world can change only when "business behaves more like civil society, not the other way around." The for-profit impulse cannot unite communities or make citizens care more about others. Competition does not foster collaboration, consumption does not encourage awareness, and economic expansion still leaves behind those who usually are left behind – the poor and disenfranchised.

> "Civil society and the market are asking different questions, not simply finding different answers to a question they hold in common."

Nonprofits should honor and use those business methods that apply to their organizations, but should not feel pressured to conform with the for-profit model. For all of philanthrocapitalism's hoopla, metrics do not show that it outperforms traditional charitable community building. Its for-profit intentions may prove fundamentally incompatible with "civil society thinking and social transformation." The unprecedented gathering of huge wealth by a few people, even if they are philanthropic, runs contrary to basic democratic principles. Relinquishing "social transformation" to the wealthy or to for-profit theorists is a mistake. Successful change requires community effort.

Civil Societies

A civil society finds solutions in "equality, love and justice" instead of competition. Around the world, small community charities demonstrate this ethos. Often, larger operations use a big-business approach instead. Warren Buffet (acquisitions), Larry Ellison (Oracle), Bill Gates (Microsoft) and Carlos Slim (cellphone and media) have "combined assets of $135 billion." They do not simply give money to existing charities. They seek to change the world on their terms, believing that rigorous entrepreneurship will solve problems that traditional charities cannot fix. The economic downfall could have limited the hubris of entrepreneurial champions, but it did not. Billionaires tend to think that they know more than less-wealthy people, yet the qualities that made them rich work against the communal aspect of nonprofit tasks. No one can manufacture, advertise or sell social solutions, which derive from compromise and steady effort.

> "Social change requires an orchestra of instruments with a democratic conductor."

"Would philanthrocapitalism have helped finance the civil rights movement" in the US? Probably not: It had no business profile, competition, metrics, data or fiscal return. Its free transportation, labor, organizing and legal work would have been wildly expensive if it hadn't been donated. Instead, citizens united to achieve a common good. That's how civil society functions. Each voice is recognized; people figure out how to help each other. The US alone has "1.4 million registered nonprofits," with some 73% working on less than $500,000 per annum. With so many community groups, "civil society is like an iceberg" with a few big, visible organizations lying above a less-visible structure of small, dedicated groups. A functioning civil society won't change the world but it can provide a gateway for seeing issues and trying solutions.

Methods of Engagement

Although businesses and charities appear to inhabit different spheres, they do merge and work together in the following ways:

- **"Social entrepreneurs"** – These people organize, push for solutions and demonstrate a strong will to seek the greater good, not profit.
- **"Social enterprises"** – These companies seek both profit and social improvement. Corporations that undertake "social responsibility" usually accept less profit as a result.
- **"Venture philanthropists"** – John D. Rockefeller created this term to refer to using his money to back his causes. It now means addressing social needs with business methods.
- **"Corporate social responsibility"** – Businesses donate to myriad needs and entities. The most alluring variation of CSR, though it seldom occurs, is "total corporate responsibility," wherein firms examine the social impact of everything they do.
- "**New business models"** – Businesses that seek profit by working with others, not competing. Benefiting customers is their primary purpose; profiting is secondary.
- "**Nonmarket peer production"** – People join to build a public resource, like Wikipedia.
- **"Social investing"** – Doing any of these by directing resources to "social enterprises."
- **"Social innovation"** – This movement includes social investing and pursues "social transformation," shifting historic economic patterns from profiting to serving others.

> "Social transformation is not a job to be left to market forces or to the whims of billionaires."

No evidence indicates that reshaping the nonprofit sector to fit the business world would improve charities. Funders should not hold nonprofit entities accountable for meeting for-profit goals. Markets never have created "socially beneficial goods and services without subsidies" or sponsorship. That's not their function. The Gates Foundation offers rare, positive examples of philanthrocapitalism. Among other efforts, it backs research for vaccines against HIV, malaria and other diseases. With the Rockefeller Foundation, the Gates organization also is attempting to launch an African agriculture renaissance using trademarked genetically modified seeds. However, this last causes concern among some policy watchers who fear that it could set up monopolies for big agricultural companies.

> "Social transformation requires broad-based participation and democratic accountability."

Billionaires' support of vaccines and other programs have brought care to the afflicted. Yet, their emphasis on immediate solutions undermines local health care infrastructures, which often have abdicated their duties to wealthy outsiders. Other groups err by misunderstanding local customs, by not using local languages or by paying volunteers to work, assuring they'll always expect payment. The infusion of for-profit thinking and big money drives a wedge between the people who need help and the agencies, nonprofits and NGOs that advocate on their behalf. Moreover, "donors and government regulators" draw responsibility away from communities that once solved their own problems. The regulations that govern nonprofits neither limit private money nor direct it where it is most needed. Philanthrocapitalists often scoff at "donations, grants and membership contributions," but those mechanisms tell organizations what their constituents are thinking. Top-down management discourages such data flows if they don't align with corporate goals.

"Competition, Cooperation and Collaboration"

Philanthrocapitalists believe that market competitiveness increases the efficiency of social processes. They believe competition generates efficiency and widens the scope of desired change. This devotion to "social Darwinism" indicates that philanthrocapitalists fundamentally misunderstand the process of changing society. In fact, competition purely can be destructive. It easily could force nonprofits to stop attacking high-priced, complex problems; strict cost-benefit analyses could turn nonprofits away from addressing the most challenging, expensive needs.

> "Inequality has profound social consequences...which is why more equal societies almost always do better."

Markets and entrepreneurship concern individuals, leaving societal change up to aggressive moneymakers whose impact is as big as their finances permit. Civil society requires "collective action and mutuality," anathema not only to markets, but also to an increasingly alienated world. Engaging large numbers of people in collaborative tasks that require democratic solutions is becoming ever more difficult, particularly when compromise is required and no boss is in charge.

> "When the rubber hits the road...it is the market that dominates decision making."

Volunteer groups work through acts of charity, offering time, effort and knowledge to achieve a greater purpose. In contrast, markets function by dictate. Charitable groups come and go according to their missions. Their processes require having the persistence to chase long-term goals and strategies. Markets want everything now and move on when they do not attain the instant results that are their primary metric. Paul Shoemaker, head of Social Ventures Partners International of Seattle, explains, "The nonprofit sector exists...because it can fund and invest in social issues that the for-profit market can't touch because they can't be measured." Charitable work cannot fit for-profit metrics without relinquishing its primary purpose. Volunteerism began by responding to entrenched inequities of "power and civil resources." Codifying those inequities in the management of charitable work would be an enormous step backward.

> "If I had a dollar for every time someone has lectured me on the virtues of business thinking for foundations and nonprofits, I'd be a philanthropist myself."

The market weeds out redundancy, but civil society prospers when goodwill efforts overlap, when varied volunteer groups form loose alliances to pursue similar but not identical goals. If such groups let the market manage their missions, then their work becomes just another product.

"Social Capital Markets"

Philanthrocapitalists cite "social capital markets" to refer to the effects of marketplace practices and principles on nonprofits. The driving notion is that if less-robust, less-effective groups have to compete, they will succumb to market pressure, and more efficient organizations will take up their work. This idea proves justifiable on paper, but it's rife with issues that shed light on the larger questions of conflating the market with charity. Some of those issues are:

- **No metrics** – No credible measurements calibrate "true social return" on money spent for a charitable cause. The fruits of social work are too diffuse, too local and often too subtle to be measured against any other work in any other place.
- **No universal measurement** – If a generalized, overall metric existed, how could anyone apply it globally to addressing or ranking infinite problems? Which should get more investment: eradicating malaria, assimilating India's lowest caste, saving the Columbia River salmon or easing global warming? The democratic mess of thousands of groups pursuing their own goals produces a parallel torrent of small solutions.
- **No cost-benefit clarity** – Market metrics can mistake achievement for expenditure, such as the time donated by volunteers or spent in the democratic wrangling endemic to citizens' groups. A Stanford University study found that the most effective groups were the least organized; that aspect alone starkly contradicts market principles.
- **No comparable outcomes** – Metrics suggest that comparing nonprofit groups' results makes sense, but it doesn't. Outcomes seldom spring from the actions of just one group; organizations' missions often overlap, knowingly or not. One group takes on an issue, and discovers a decade later that it enabled the success of a later-arriving group in an adjacent town dealing with an entirely different issue. How then to calculate the benefit?
- **No standard performance** – Routine measurements cannot weigh the differences in performance between similar groups. Determining all the influencing factors of community, location, resources, difficulty of engagement, and so on, is not possible.

> "If you wait to tackle injustice and discrimination until everyone has more assets, it will already be too late."

The worst result of applying market metrics would be to reward some nonprofits for less significant (but more metric-friendly) work, and punish those working in the most daunting circumstances who need more time to reach their goals – and thus appear less efficient.

"Guiding Principles"

If the market can't make social change, who can and how? Here are four proven solutions:

1. **The more the merrier** – Let everyone who cares have a voice in choosing problems to address and devising solutions.
2. **Let the disenfranchised speak** – Those most afflicted by social problems must be "at the center of the system." Hear their voices instead of regarding them only as clients.
3. **Reduce bureaucracy** – Make all routes between problems and money as short and simple as possible. Create pathways so resources easily reach those who need them.
4. **Most to the worst** – Shift priorities so that the most money, resources, people and technology accrue to the most enduring, intractable social issues, wherever they are.

About the Author

Michael Edwards, a writer and activist, works with the think tank Demos and the Wagner School of Public Service at New York University.