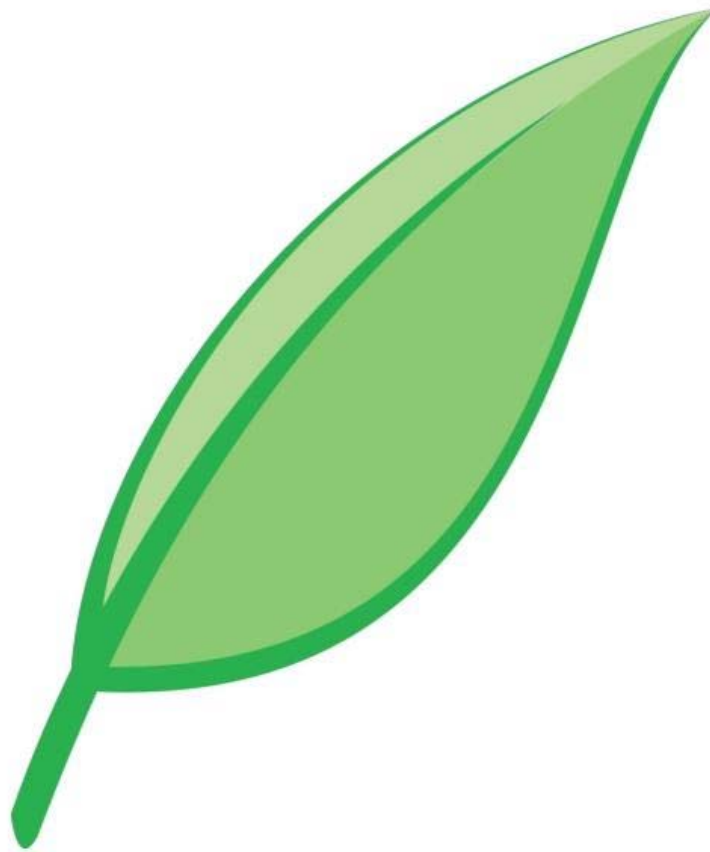


Radical Philanthropy

The partnering of Mission with Commerce



A White Paper report on a new form of corporate and individual philanthropy.



Radical Philanthropy

Abstract

In this white paper, we introduce the idea of a radically different model of cooperation between *for-profit* entities (e.g. commerce entities) and *not-for-profit, mission-oriented* organizations (e.g. mission entities). We believe that such a radical departure from historical viewpoints and ingrained paradigms is timely with respect to *need* and *awareness*. Need – because mission entities are facing a critical shortage of financial support and donor base as they strive to maintain sustainability. Awareness – because a movement of social consciousness is apparent, and emerging, in political, organizational, and leadership studies and practice – being most closely identified with the increasing interest in servant leadership.

We call the new model ***Radical Philanthropy***. It is tailored after the emerging social entrepreneurial companies that are striking a balance between the pursuit of commerce and the desire for social benefit. However, we do not support the premise that all missional functions can be accomplished through these hybrid organizations – despite their significant contributions to social benefit. Rather than blend the two entities (commerce and mission) into a hybrid organization; we would suggest that a tight correlation of existing mission entities partner with existing commercial entities - for mutual support of one another.

This is not a loose association, however. Radical Philanthropy encourages a deep integration of the two entity types; which includes shared human resources, shared business processes, shared facilities, brand association, shared marketing and promotion, and potential service and product development and/or delivery coordination. The full degree of integration will vary between the needs and the capabilities of the entities. Socially assertive organizations, emerging hybrids, and new ideas such as Radical Philanthropy are modifying actual operating paradigms faster than modifications to corporate structure, governmental regulations, and tax code. Differing legal structures and financing mechanisms both characterize and complicate the enterprise topologies of radically changing firms (Alter, 2004). We understand the critical nature of mission entities and their reliance upon tax exempt status. We fully recognize that prudence must

be taken in terms of implementation of Radical Philanthropy, but we do not recognize that the challenges exceed the benefits to both organizations. We suggest the continued segregation of board oversight, organizational structure, and managerial responsibility in order to sustain the missional integrity of both entities.

Our experience points to the fact that smaller, more entrepreneurial firms are tailor-made for such arrangements with missional organizations, yet for the most part, are ignored in the corporate philanthropy and corporate social responsibility literature. Given the financial landscape and degree of social need, Radical Philanthropy will afford many social enterprises continued vitality in lieu of a potential lack of survival and a consequential elimination of the social benefit thereof. From the perspective of the commerce entity, many are suffering from a lack of community consistent with the definition of a healthy servant led organization (Laub, 1999). Research has shown that volunteering can be an effective method of improving critical business and leadership skills.¹ Many individuals will find renewed purpose and organizational vigor through their association with a missional sister entity, able to apply skills not otherwise utilized by the commerce entity or unknown to their working peers.

We believe that Radical Philanthropy will enhance the role of servant leadership organizational health, and promote innovative, business-framed solutions to the challenging issues facing mission organizations. Commerce entities can provide mission entities with a depth of volunteer resources, business processes and systems, an expanded human network, and management experience that frequently eludes smaller organizations. Likewise, the opportunities and needs of missional entities will allow commerce entities to expose its employees to broadening opportunities of personal development, charitable outlets, application of diverse talents and skills, and social consciousness. The uniqueness of Radical Philanthropy is in its application; being widely disseminated and highly integrated – people, facilities, systems, and purpose.

Additionally, we suggest that the historical perspective of philanthropy is outdated and has been relegated to the super-rich in reference to its role in society. A false definition of philanthropy has been allowed to foster an environment where many individuals and business owners of considerable income capability, and substantial wealth, fail to recognize themselves as potential philanthropists. Philanthropy has come

¹ Deloitte 2008 Volunteer Impact Survey

to be identified with either the super-rich individual or the foundational trust, when in actuality the role of philanthropy should be more widely divergent in structure and capability.

We would encourage refocusing the role of philanthropy toward *sustainable capacity* with less emphasis on *wealth divesting*. We set forth the premise that the identity of philanthropy should be applicable to an organization, not just to an individual. We suggest that, in light of shrinking resources and expanding need, philanthropy should focus on meeting the needs inclusive of operating and other resources, with as much emphasis as it has traditionally approached the responsibility of capital funding. Our entrepreneurial commerce entities contain a reservoir of talent from which the mission entity can gleam, but leadership is needed to encourage and connect the two.

The close proximity created between donors and recipients of Radical Philanthropy should encourage a sacrifice of accumulated capital, percentage of profits, or return on investment, at an earlier life cycle stage. It should broaden the viewpoint of shareholders to include all stakeholders in the valuation frame of the bonded organizations. We argue the premise that the recent loss of vast amounts of personal wealth in the stock market is indicative of the loss of opportunity that could have been afforded many suffering human beings had Radical Philanthropy a broader audience.

Carroll (1998) defines the historical definition of philanthropy as the “desire to help mankind through acts of charity, whether done by private citizens, foundations, or corporations.” Radical Philanthropy is philanthropy earlier in the wealth cycle, deeper in its resource sharing, more active in its participation, and broader in its ability to both derive, and provide, personal human fulfillment. In keeping with Laub’s (1999) servant leadership constructs, the *building of community* is an essential function of the servant led organization. Radical Philanthropy fulfills this concept.

The economy and sustainability

In the October 6, 2008 issue of *Business Week* (Business Week, 10/6/2008 Issue 4102, p42-42), author Aili McConnon sounds a dire warning for mission-oriented organizations across the world with the title, *Charties Go Begging*. Indeed, the growth and vital role of mission entities throughout the world has grown exponentially over the years as awareness of social needs has become pervasive given the failure of political will

of many countries to provide for their citizenry. In the United States, total charitable giving actually increased during 2007, according to a recently released survey by the Committee Encouraging Corporate Philanthropy. However, these numbers are not reflective of the recent financial hemorrhage that is affecting the global economy. With billions being spent on bailout plans across the globe, the sluggish economic growth combined with drastically reduced tax revenues could likely create a perfect storm of reduced giving capabilities along with materially increased social needs.

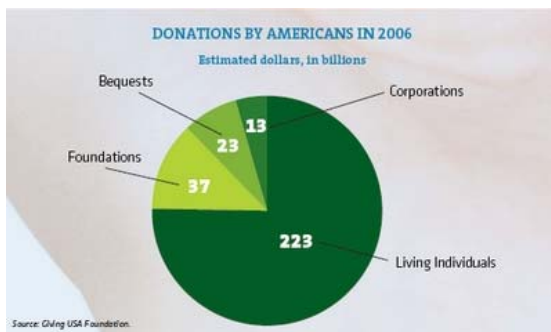
A briefing paper on the economics of charitable giving released by the Center on Philanthropy at Indiana University highlights the growing concerns of mission entities as they seek to understand the impact of the financial crisis on their organizations. With U. S. economic output for the coming months projected at flat, or negative, levels of output; the correlation upon individual and corporate giving could prove to be disastrous for hundreds of donation-based organizations. There is an established historical correlation between the performance of recessionary economies and reduced levels of contributions. The primary factor is the length and duration of the recession. When there is no recession, giving grows at an average rate of 4.3 percent. In years with recessions, average giving decreases by 1 percent. However, during the lengthy recession period of 1973 to 1975, reductions in giving reached 5.4 percent and were slower to recover to earlier levels. Exasperating this expected decline in economic activity is the dramatic reduction in personal wealth that is accompanying our current recession versus the impact upon wealth during earlier recessionary periods. With the combination of eroding housing equity and market-related retirement losses of 30-40%, American consumers will naturally respond by aggressively managing their personal budgets and expenditures. This trend is evidenced by the Federal Reserve Board's report of consumer debt decreasing 0.8% during the 3rd quarter of 2008. The Board report notes that many of the contacted executives of our nation's mission organizations are bracing for what they expect to be a difficult and extended period of eroding financial support.

Even prior to the economic changes befalling the global economy, many charitable organizations were feeling the pinch of competition for financial resources. Economists Inkyung Cha and William Neilson at Texas A&M University's Private Enterprise Research Center say that while competition is generally a good thing, it isn't when it comes to charities. Their research shows that the increase in the number of charities is creating a "crowding-out effect" that's actually counterproductive. Mission entities must raise funds from a limited amount of donors, who are likely being solicited

by other charities as well. The increased competition and time expenditures required for fund raising and donor solicitation creates a *travel costs premium* that actually reduces the effectiveness of the work of the not-for-profit by reducing the available time of already limited resources to do its missional work. Since contributions are tied to individual incomes and corporate profits, many researchers conclude that the introduction of an additional mission entity only serves to *steal* funds away from an existing organization; not create or uncover new sources of financial support.

Patterns of Giving, Wealth distribution, and the role of Faith

In 2006, Americans gave approximately \$295 billion to charitable causes. With annual charitable increases averaging 2.8 percent since 1967, estimates for 2007 giving will exceed \$300 billion. A large majority of U. S. citizens contribute to their individual faiths, worship centers, and related charities. The average American household



contributes more than \$1,000 annually to a religious or mission-based organization. It may not be surprising that Americans are so charitable (more than any other country in the world per capita) and that individual giving accounts for the vast majority of all charitable giving; near 75%. What may surprise you is the relative small

contribution that corporations make in proportion to overall giving; less than 5%, substantially trailing Bequests and Foundations. For individuals of faith, giving is also a higher priority. Of individuals who associated themselves with “religion”, they were 25% more likely to give charitably than “secularists” and 23% more likely to volunteer for charitable or mission-based work. Religious peoples gave nearly four times more dollars per year, on average, than secularists (\$2,210 versus \$642), and volunteered more than twice as often (12 times per year, versus 5.8 times)² Also, there is a striking disparity between giving propensities and average income. Low-income working families are the most generous group in America, giving away approximately 4.5% of their income, on average; versus approximately 2.5% among middle class Americans and 3.0% among high-income families.

² The American: A Magazine of Ideas; Chart-1 Giving USA Foundation; Roper Center for Public Opinion Research.

Again, the economics of opportunity will play a large role in the sustainability opportunities of not-for-profits. In order for individuals to be generous with their incomes, they must have income from jobs; and additionally, have a reasonable degree of certainty that some of that income is disposable and stable. However, the disparity between the real circumstances of middle income families and their wealthier counterparts continues to display disturbing trends. In the United States currently, the most affluent 1% of the population holds more wealth than the entire bottom 90% combined, according to U. S. Federal Reserve research.³ Concentrated wealth limits by definition a broadly supported and diversified mission base, putting pressure on less recognized entities to find funding alternatives in places where capabilities are slim. Broader wealth distribution enables a broader donor base up and down the wealth spectrum.

With respect to concentrated wealth, however, the current economic crisis has shown no discrimination in its choice of victims. Wealthy, middle-class, and poor alike have been hurt by the loss of wealth, income, and jobs. With the uncertainty of tax policy looming over a new administration facing the toughest economic times of a century, it is a very unsettling time for any organization that depends upon financial excess and availability, combined with generosity, in order to sustain its operations. For traditional philanthropic organizations, the strains upon financial resources is yet unknown. Many of these organizations depend heavily upon legacy trust funds that may have taken sizable losses in the market. For individual philanthropist, the shrinkage of personal wealth and/or corporate equity balance sheet loss may prove too emotionally daunting to overcome with respect to maintain previous levels of support.⁴

The overall picture painted by these facts demonstrates that mission entities may be facing a severe sustainability crisis of historical proportions. The challenges include:

- A strain on recessionary level contributions from individuals,
- Increased competition for smaller pools of available corporate and large benefactor funding,
- Increased pressure upon social services delivery and need due to expected reductions in governmental assistance,

³ Federal Reserve Board reference from www.toomuchonline.org.

⁴ Business Week, T. Boone Pickens, who lost \$270 million personally in the crisis, has given just \$3.7 million to charity in 2008 versus \$200 million in the last previous years.”

- Uncertain tax policy potentially affecting the most affluent segment of contributors,
- A reduction in jobs and income for lower and middle class donors, and
- A reduction of levels of personal disposable income across all wealth segments.

These factors make it difficult to understand where the relief will come from to save many of these ministries, charities, and missional organizations. If the leadership of these organizations limit their thinking to only an historical perspective, the task to overcome seems almost impossible. But by embracing a radical departure from history and embracing a totally new paradigm, the road may abound with vast new opportunity.

The language of leadership

One primary factor to the success of Radical Philanthropy is the purposeful heart of the commerce entity's servant leader – an emerging social burden and commitment for the betterment of humanity. Without this foundational viewpoint, the model has no framework. Another key factor is the openness of the missional executive to embrace an operating model that is less dependent upon personal reputation and more dependent upon organizational sustainability and cooperation. Inclusion and transparency must dominate the relationship between the two entities. It can sometimes be the case that social entrepreneurs and mission-oriented visionaries are so mission-centric that reasonable constraints toward organizational or capital conformity are not acceptable. Radical Philanthropy is more than collaboration; it is integrated practice. It's not a date – it's a marriage.

We realize that Radical Philanthropy will not fit all situations and circumstances and will involve many compromises. But organizational and personal compromises will pale in comparison to the humanity gains that result from effective partnering. The individuals that expand their humanity, and the missional entities that survive to serve, will radically change our world. A spirit of unity, openness and collaboration between what are historically two diametrically opposing forces (* maximizing making money and maximizing societal benefit) will remake themselves into an evolved model of interdependency and mutual support.

A Radical Revolution

Greenwood and Hinings (1996) identified two dimensions of change: scope change and pace change. Change is either convergent (a sequence or a series) or radical. Pace is either evolutionary (systemic) or revolutionary. For the vast majority of mission organizations, the time for radical, revolutionary change is imminent. More importantly, the social consequences of non-movement toward a new model of dependency could be disastrous for thousands of hurting peoples across the globe that depend upon the leadership capabilities of these organizations to provide for the social, material, and spiritual assistance so badly required in their lives.

Affirming this radical departure from the old to the new, the season for social consciousness and awareness to expand and remake a mission-based organization is already forming an early movement. In leadership studies, the emergence of servant leadership and social entrepreneurship within organizations is having profound impact in terms of community building and the development of social consciousness amongst all members of the organization (Drayton, 2002). Many for-profit companies are embracing a responsibility to become more socially active, and to more fluidly integrate a socially conscious paradigm into their companies. At the forefront of these enterprises are the hybrid companies (e.g. social ventures, social purpose businesses), who blend market and mission-driven methods toward for-profit objectives with societal impact. These companies are challenging the perceived dichotomy between commerce and social endeavor.

Likewise, the topic of sustainability is the buzzword of the decade for not-for-profit entities. Particularly compelling is the changing funding landscape across the country. Funders have adopted new mechanisms for funding which are inadvertently affecting the sustainability of missional organizations. These new funding strategies include adopting an increasingly targeted approach to funding, shifting away from a core funding model, being reluctant to fund administrative costs, providing funding for shorter periods of time, increasing reporting requirements and requiring joint submissions with project partners⁵. While these funding strategies are intended to increase accountability, support partnerships, promote diversification of funding sources and foster efficiency and innovation within the sector, they are also having a severe impact on not-for-profit

⁵ A Sustainable Not-for-Profit Sector, Leadership Thunder Bay

sustainability. Basic infrastructure is being lost due to the move to project funding and the tightening of restrictions on administrative costs. Paid and volunteer staff is stretching themselves to meet the new requirements while attempting to continue to provide essential mission services.

It is clear from this research, that a saturation point of financial support and available resources is being reached. The time to act is upon us. Leadership is needed to move toward the adoption of a Radical Philanthropy; one that is void of ego, broadly shares vision, resources, facilities, expertise; and in the spirit of servant leadership, promotes the building of community within the frame of the organizations for which they have been entrusted. Radical Philanthropy seeks to take the spotlight away from the individual and put it on the collective; to remove expectation away from a few sources and make it available to many; to serve first and lead through that service. Radical Philanthropy seeks to change the language of organizational culture, and to embody the themes of servant leadership and the cause of social consciousness.



To find out more about Radical Philanthropy, please contact George Landolt (glandolt@aol.com) or Kenny Hall (kennyrhall@yahoo.com) – or call the office of Waterford Law Group, PLLC at (615) 373-2500.

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