

“Business Entrepreneurs & Philanthropy: Potential and Pitfalls” A Keynote Speech by Mario Morino

Legacy 2007
National Philanthropic Trust
September 28, 2007

In 1991, futurist and noted author Peter Schwartz framed a remarkable period of transformation, which he described as the “long boom”—spanning from 1980 to 2020—in *The Art of the Long View*. Schwartz sees a period of economic and societal transformation driven by a continuing stream of new technology and the relentless process of globalization. Today, well past the half-way point of the “long boom,” the entrepreneurs of this period have generated a wealth creation of near unimaginable levels, with great impact and implications—economically, politically, socially, and philanthropically.

In the midst of this period, comparisons are often made to the philanthropy of more than a hundred years ago that came from the wealth created with the Industrial Revolution at the turn of the 20th century led by industrialists like Vanderbilt, Rockefeller, Carnegie, Flager, and Morgan. There are countless examples of how these families created great value and changed the American landscape in positive and lasting ways. Yet, despite their accomplishments, critics termed them “robber barons,” and Mark Twain and Charles Dudley Warner wrote of the waste and ridiculous excess of the era in *The Gilded Age: A Tale of Today*.

Even now, more than a century later, it is not clear in some circles how history judges these industrialist leaders against the scale of “robber barons” to philanthropists. It is prudent to similarly consider the positives and negatives that this “long boom” cadre of new wealth will have on society. I am fortunate to have been an entrepreneur who benefited from this period and have focused the last 15 years on philanthropy and civic engagement. With this context, I pose several questions to myself and others who have created wealth and are turning their focus to benefit society:

- How will our actions to better the world be judged in 2107?
- Will history deem our actions as leading to lasting, meaningful, and positive *change*, or will they instead see us as narrow, greedy, arrogant, and ineffective? Or, even worse, as causing unintended consequences with adverse impact on society?
- Will history conclude that our generations of wealth helped unify an increasingly divided America and world? Or will it find that we created our own virtual and isolated world populated by those with great wealth that disconnected from society at large as social and economic gaps widened? This question has already been posed in Robert Frank’s *Richistan*.

I hope we will respond to the remarkable opportunity that lies before us, so aptly described by John Gardner:

“There occurs at breathtaking moments in history an exhilarating burst of energy and motivation, of hope and zest and imagination, and a severing of the bonds that normally hold in check the full release of human possibilities. A door is opened...”

I believe we are in the midst of one of those breathtaking moments. To seize this moment, it would serve us well to learn from those who have plowed these fields before us. As Carl Sagan said, "You have to know the past to understand the present." And Winston Churchill emphasized, "The farther backward you can look, the farther forward you can see."

I hope we will be thoughtful, willing to learn from history, respectful of the success and failures that preceded our efforts, while bringing energy, resources, and innovation to make the world a better place.

It is with this hope that I want to share with you what I believe business entrepreneurs bring to philanthropy and the greatest challenges they face when they become involved in nonprofit, civic, and public policy matters. In doing so, I'm sharing my own experience—things that went well, missteps I've made and observed, and lessons we've learned in our work with Venture Philanthropy Partners.

THE TRAITS OF A BUSINESS ENTREPRENEUR

Endless books and articles describe business entrepreneurs and their traits. They bring many of these characteristics versus the more traditional patterns and habits of established philanthropy as they move into the social sector, as described in "The Seeds of Change in Philanthropy" report, authored by Katherine Fulton, Andrew Blau, and Gabriel Kasper. As new philanthropists, in general, they are younger, more "hands on," prone to "giving while living," more results-focused, involved in efforts both close to home and globally, and more. But from my personal standpoint, business entrepreneurs also bring additional characteristics to philanthropy and the social sector:

- A resourcefulness and, at times, a free-wheeling style;
- The ability to see problems and opportunities where others don't and the aptitude to find new ways to solve problems and capitalize on those opportunities;
- An impatience with the status quo and "traditional thinking;"
- The capacity to get things done, make things happen—ideas are a dime a dozen and those who turn ideas into reality, often against the odds, are greatly valued;
- An obsessive compulsion or, some say, an irrational drive, to make vision a reality. Often in business, no one believes them at the outset and they generally got more discouragement than support until they had something tangible to show;
- Perseverance, often overcoming the insurmountable, so the same expectations are present with philanthropy;
- An unrelenting focus on results, rather than process; and
- A need (or want) for "big impact."

IT'S IN THE DNA...

When business entrepreneurs make the transition into the world of philanthropy and the social sector there will be change—often with a flurry of questions ranging from the motive behind their actions to the "goodness and badness" of their efforts. There is no doubt the pot will be stirred—it's in the DNA.

Here then are some generalizations about behaviors I've observed or done myself:

They bring money — Wealth makes business entrepreneurs sought after as money is a scarce resource, required by all in the nonprofit world. Not afraid to spend or, in this case, give it away, they bring money to a sector always in need of funding—and this alone makes them important.

They want to be part of the solution — Writing a check isn't enough. They want to be engaged. Many have built organizations, raised money, forged partnerships, hired talented people, and made difficult decisions. They like to use what they know to be effective in their philanthropy—to them it's natural to think this way.

They find ways to leverage money and efforts — It is more than making a gift. Often, they see it as an investment in their cause or community. And, as such, they're willing to use their influence to leverage their money and efforts several times over if possible. This is how it worked in business, and continuing this approach with philanthropy is innate. They will use their influence to drive issues and bring people and resources to augment efforts.

They believe in talent — They place a premium on highly driven, smart people. They understand how critical the right talent is to success and, as such, are impatient—a lot—with mediocrity.

They network with purpose — Most instinctively understand how to network and use its power to the fullest. Eager to learn and leverage their efforts, business entrepreneurs reach out to peers and pull people they know into ventures (or try to). Ironically, they don't always reach out to those who aren't peers or inside their normal circles of contacts, which I believe has been one of the gating factors underlying the real or perceived divide between the new and the established. They use networks to open new doors and facilitate the flow of ideas and resources for the causes they support.

They're not afraid to team up with others — Because they had to find ways to work with the very firms with which they competed, working with others is not new. But, don't make this more than it is, because they tended to work with those they liked and respected or, more often what is not said, they had to because of competitive pressures. The willingness to team and partner with others can be a positive for their efforts.

They're more risk-oriented or, better said, less failure conscious — For an entrepreneur, not getting something right or coming up short is not viewed as failure, but just another step in the journey. They often learn by trying. Probing, testing, and learning through an iterative process can drive folks not used to this mode of development crazy—just ask anyone who has ever worked with me! They bring a healthy understanding of what it takes to build a start-up, along with the risks involved, and are naturally drawn to support new leaders.

They want scale — They did things quickly in business, some even moved and changed industries, and speed is an adrenaline source. They'll push to make things happen faster and bigger. Business entrepreneurs will drive growth in size and impact.

They don't think in terms of sectors, but rather broad impact — It doesn't matter whether a vision is achieved through a for-profit, nonprofit, or even public venue; it's simply an interim vehicle (the means) to an end. They are more likely to look at how to solve a problem and then determine whether to do so through a for-profit, nonprofit, public, or hybrid approach.

They are increasingly global — Their business careers have taken them to many parts of the world. They're comfortable, even at home, abroad for both business and pleasure. They vacation all over the world, even having homes in other countries. They encounter global issues more and more and are choosing to focus their efforts on a broader basis.

Business entrepreneurs have much to offer and are a growing force with profound implications—economically, politically, and socially. And, here in America and increasingly on a global scale, society will benefit from their broader view of life engagement, as they move in the words of Bob Buford “from a life of financial success to life significance.” To help guide our work, shouldn't we occasionally reflect on the long-term impact of our work—anticipated and unintended—and hold ourselves to a high scale to ensure we are, indeed, making a positive difference?

IF ONLY I HAD KNOWN...

Many make the transition from business, but it is seldom an “either/or” event. For most, it's a gradual shift in their focus from business to becoming more vested in social or civic actions to give something back to their community and make contributions to society.

There is no assurance of how the new philanthropy emanating from the “long boom” will be viewed in 2107. In my relatively limited 15 years of observing the transition of business entrepreneurs to a broader philanthropic venue and having lived it myself, I suggest that the success from a social and civic standpoint—the real fruits of our labors—will be achieved or negated based on how well some of the challenges are encountered and handled. This has been conclusively demonstrated to me in our work with Venture Philanthropy Partners, where what we thought so simple, obvious, and ready for our “business-like approach” proved incredibly complex and involved—needing skills well beyond our business expertise. What we learned is that true impact comes not only from what we do but also is the result of the thoughtfulness, empathy, humility, and, yes, effectiveness of how we do it.

With the benefit of hindsight, here are some thoughts to consider for business entrepreneurs making the transition, particularly those involved with direct service organizations or efforts to serve targeted populations directly. It's important, however, to set some caveats. First, what follows reflects the views and opinions I've developed—not right/wrong or good/bad scenarios. They are certainly not all inclusive. And, most important, these ideas have different and varying degrees of relevance across the broad spectrum of philanthropy and social innovation.

The social/citizen and the public sectors are really different from the private one—and it's a big transition. Some of the differences I've observed and experienced include:

- Relationships play a much greater role in the social sector as does protocol in the public sector, often having greater importance than the “systems,” e.g., processes, products, and services.
- Context has an extremely significant function, again taking precedence over the content of an issue. Protocol, form, and respect are essential in this world and can sometimes obviate the “right” answer. At times, formal or informal credentials will override raw talent. The issue itself may be crystal clear to you, but understanding the context within which the issue is framed is key (and the difference between success and failure).

- All organizations deal with external factors, but social sector organizations confront and work through more outside conditions beyond their control and that are more social and people-based in nature.
- Social complexity—the combination of all of the above and then some—makes working in this sector more difficult, a point made quite well by Jim Collins in his monograph *Good to Great and the Social Sectors*.

There are certainly additional views of these differences. These particular points, however, illustrate that the business leader who brings an ability to read and have empathy with people and situations, understands nuance, and thinks beyond business practices, systems, and processes has a much greater chance to succeed in the social sector.

Understand the importance of respect and empathy. First, having a genuine respect for the people your philanthropy is meant to help is vital. And, second, regardless of your business fame or stature, realize you have to earn a new respect in this space, and it takes a lot of time and personal investment. I can't emphasize this point enough. Earning the respect of the organizations we seek to work with and the children and people we hope to serve is absolutely essential. It can only be done over time and by getting engaged. Legitimate empathy (not sympathy) is another characteristic which helps you gain credibility within the sector and be effective with your efforts. You don't have to have parallel experiences, but compassion and care about your philanthropic counterparts will be tested quickly. Fakery is soon "outed" in this world, but genuine concern is recognized and appreciated.

Recognize that things take longer, but don't capitulate that it has to be as long as everyone tells you. We have learned the hard way that things just take longer to get done. Some of the delay deals with the differences noted above. Sometimes it's a function of the acute shortage of capital and available executive talent. Sometimes it's caused by the remarkably fragile ecosystem that surrounds most nonprofit and social initiatives, quite different from the world enjoyed by most business people. And, sometimes it's because people can get stuck in how they have always done things and their own expectations for performance. Things will take longer, but there is substantial room for improvement, where fact-based decisions, strong execution, greater rigor and discipline in management, clearer aspirations, more engaged boards, and strong management can make remarkable strides in relatively short times (compared to the field).

Keep your ego within "reasonable" check. The private sector strokes you enough to cause swelled heads, but philanthropists are literally deified—and it can be hard to stay grounded and build the filters you need to get truth and "unvarnished" opinion...few will tell the person with the gold that his ideas are bad!

What I'm about to say next shouldn't generate any sympathy, but perceptions scale directly to your level of wealth. What am I talking about? I couldn't get over how I was suddenly smarter, more eloquent, invited to more events, and told funnier jokes once I had more zeroes after my name. And, I wasn't even a geek before (at least I don't think I was). As my work in philanthropy grew, I would look in the mirror and say, "I'm the same guy I was back in 1985 when all I had was a meager start-up and just enough money to get by (sometimes). So why, to my amazement, have I suddenly become something bigger, more noble, and more important?" I don't think I've changed much, but my net worth has apparently affected the perceptions of others. And, I believe this is a general phenomenon in the field.

Ironically, this change in expectations and perceptions, if gone unrecognized, can be a huge disadvantage to a business entrepreneur's efforts in the social sector. Many entrepreneurs literally thrive on hard feedback as they test new ideas and early products. If they don't get constructive and, at times, piercing feedback, they're apt to take a position or advance a new product or service that will likely miss the market. They'll be wrong. Business entrepreneurs run this risk many times over in philanthropic efforts. The reason? The lion's share of the field—nonprofits and foundations alike—are not about to tell major donors, once they have a vested interest, that their ideas don't cut it and risk "biting the hand that feeds it." The glaring danger? The well-intended business entrepreneur continues the effort unabated, poorly advised, with a high likelihood of ultimate failure, or even worse, damage to the organization or cause. Having people in your circle of contacts who will tell you "how it is" is invaluable.

Not all business entrepreneur traits transfer well. Some of the characteristics that were effective in the private sector may not work now. In fact, I've also learned that some of these traits don't endear you as a spouse or a parent either. The highly driven nature, the adrenaline kick-in, the brashness that is valued in business settings, the "take it on at all costs" mentality, all have their consequences in a world where relationship, context, and social complexity play such important roles in being effective. The leader of a remarkable global charity told me the story of a high-profile business entrepreneur who approached him to make a major gift. It quickly became apparent that this donor wanted an excessive level of control as a quid pro quo, and the leader wisely demurred. The rest of the story is only believable if you've been on the for-profit side with exposure to buy-outs, mergers, and acquisitions. The entrepreneur, unfazed, told him that he was becoming the major supporter of another charity that did similar work globally and conveyed "we'll run you out of business." Clearly an exception, but illustrative of how business entrepreneurs bring not only their characteristics but their business values to their philanthropy—for most it works well, but for some it can be their downfall.

Be able to navigate formal and informal systems. Many of the factors vital to success are outside of your immediate control—the multiplicity of stakeholders, the interdependency of "supply chains," and the expectations society places on nonprofits. These dynamics include governments who purposely underfund services because they are provided by nonprofits; funders who won't fund operational costs or, even worse, penalize organizations for what they consider high overhead costs without regard to the impact or value being provided; or those who insist that nonprofit professionals should work for lesser compensation because they are "mission-driven." One of the skills and characteristics that has served our work so well has been having leadership at VPP that is both knowledgeable of and able to navigate the formal and informal systems—political, cultural, social, jurisdictional, and other—that create an ecosystem capable of "organ rejection" to any new approach. In this world, knowing who to involve, organizations to touch, and context issues to address is critical.

Don't assume "market forces." Many business entrepreneurs relied on market forces for success in the private sector. But, such reliance may be misplaced, or maybe better said, misjudged in the social sector. Do not make the assumption that the market forces at work in the private sector—or the systems and discipline they introduce—carry over to the social sector. Yet, there are opportunities where entrepreneurial ingenuity may introduce market forces—or, more likely, proxies for market forces—into the nonprofit sector with effective results.

Government funding and programs are important. There is a romantic, idealistic view that we can scale solutions without government funding. In some areas this may be true, and, when possible, we should do all we can to make this a reality. But in areas where public funding approximates from 85 to 95 percent of the available funding, e.g., human services, this is simply not realistic. To drive home the dramatic nature of this point, consider Melinda Gates' acknowledgment in her keynote speech at the Council on Foundations conference: "If we spent our entire endowment [the Bill and Melinda Gates Foundation], we couldn't even cover the cost of schooling California's students for one year. That one state spends more than \$50 billion educating its children every year."

Business entrepreneurs reluctantly come to grips that effectively navigating the labyrinth of government bodies and agencies is critical to their philanthropic and civic efforts and requires specialized knowledge. Ironically, those who were most effective within government markets in their business lives reached that same conclusion.

Move beyond the "Dance of Deceit." Some worry that the power of philanthropy can corrupt the aspirations of those it aims to help. We all too often see this dance at work: Really great leaders with equally great ideas allow themselves and their ideas to be sidetracked, even taken fully off mission, to capture the resources they need, which then go to something different than either the leader or the donor originally conceived. Foundations are equally responsible because they can be seduced by their power and may not explicitly work to contain it. Mission dilution for the leader and organization can occur as multiple donors each require subtle, but real shifts in the organization's direction. So aspirations and innovation risk subversion, money is delivered, and the leader can be compromised. Both the leader and the philanthropist run the chance of sub-optimizing the potential of their relationship and the opportunities they could have explored.

Instead, by building a true respect, understanding each other's respective side, and setting clear expectations of what each one wants and needs, both funder and recipient can come away with great experiences.

Remember your limits. One of the realities of the business world is that when the Peter Principle kicks in and you hit a level above your competence, change will soon be in your future (unless you own most of the stock). Those "checks and balances" are nonexistent in philanthropy and the social sector. Regrettably, this is something I fall prey to all too easily. All I can suggest is to look back on your business life and know where you had to make adjustments and where your skills didn't match the needs. The same may be true of your work in philanthropy, but no one will remind you. That's why it is always good to have a true "consigliere" in your inner circle. You may hate what they say when they say it, but if you're honest, it will make a great difference in the long run for you and your work.

CONCLUSION

The "long boom" as characterized by Schwartz is alive and well. We indeed find ourselves in a truly remarkable period. Business entrepreneurs will have a stunning impact on philanthropy, global issues, and society. In many cases they already have, driving change through political engagement, civic involvement, and through their philanthropy.

Some additional suggestions to entrepreneurs from my own experiences include:

- Be meaningful. Satisfy your personal interests and needs, but move beyond your comfort zone to get engaged with the truly formidable challenges facing our society.
- Be willing to learn. Seek the advice of others who have gone before you for they can share valuable insights and lessons learned to increase your chance of success.
- Be transparent. Let people know what you are doing and the logic and criteria guiding your actions and decisions.
- Invite scrutiny. Make yourself and your efforts publicly accountable, and be open to criticism and provocation as a means to becoming more effective.
- Be collaborative with purpose. Pay heed to the African proverb, "If you wish to go quickly, go alone, but if you wish to go, far go together."
- Be yourself. But do so with a large dose of empathy and humility. Don't relegate or delegate away the conviction, energy, and resourcefulness that helped you succeed to others. They may bring a different value set to carrying out your philanthropic purpose.
- Have positive impact. Seek actions that lead to systemic change, reshape sectors, and strive for fundamental change to the status quo. Insist on ambitious (but realistic) goals, clarity of mission, raising the "talent bar" with excellent leadership, accountability, and building great institutions that can deliver truly, lasting, relevant change.

As Gardner said, "*A door is opened...*" The possibilities—and unintended consequences—are limitless. Our challenge is to ensure that the impact we have is positive and lasting. One way we can help ensure our civic and philanthropic endeavors have positive impact is to step back, learn, and adapt to the ways of the world beyond the private sector. The real magic happens when we blend our business expertise and entrepreneurial ways with the lessons of history and the learning of the social sector.

And as we take actions to better the world, always keep in mind a sobering premise: In this arena when we experiment and learn new ways to do things, there is often a direct intervening and influencing of people's lives—children and families. The stakes become very personal, much higher than what we knew in the private sector.

Let's hope that those who judge us a hundred years from now will say, "The entrepreneurs and their families of the 'long boom of 1980 to 2020' seized a remarkable time in history and were instrumental in making the world a better, safer place."