Twentieth Century US Corporate Philanthropy at Work: The Manager/Executive as Entrepreneur in the Nonprofit Organization

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CORPORATE philosophy takes two related forms: first, the philanthropy of products, services such as room space, computer time, and monies contributed by the firm to an agency in the nonprofit or Third Sector; second, the contribution of a corporation executive's leadership and other staff time in service to the nonprofit organization. These methods of corporate participation in the nonprofit organization need close evaluation because of the need to maintain the integrity of the nonprofit organization served by business and the need to examine the consequences for business. First, I identify some of the current issues in business participation in philanthropy; next, I examine the executive volunteer in the nonprofit organization as both organization man and as entrepreneur, and finally, I examine some consequences for the Third Sector in mainline US Protestantism and the United Way.

Philanthropy in the United States enjoys a wide range of private and public donors. In this century, corporations began to participate directly in philanthropic funding while, at the same time, firm employees maintained their commitment. Since the Internal Revenue Code of 1936, corporations have been able to donate to nonprofit organizations as a deductible business cost, and the 1981 Economic Recovery Act raised the legitimate deduction to ten percent of taxable income. However, businesses do not exceed one percent in giving despite increasing pressures from the nonprofit and the public sectors. In fact, only 23.4 percent of US firms participate in philanthropy. Total corporate giving represents 6 percent of the total nonprofit sector [16, 9 April 1982, p. 12].

Business firms tend to contribute in three areas: health, community welfare, the arts, and education. The largest firms (particularly manufacturing) and those with company foundations (insurance companies and banks) choose education. The largest commitments from the greatest number (generally retailers), however, are in the health field, other community services, and the arts [6, p. 81]. The instrument often used to assign health and community services is the United Fund.

In theory, Third Sector institutions are far from "power and authority or...the production and acquisition of material goods and money. They embody the countervalues and complementary beliefs in our competitive, capitalistic, materialistic culture" [17, p. 4]. I disagree. At no time in this century did this definition prevail. In fact, as the anthropologist John Sirjamaki wrote, "what impresses the student as he studies American culture is the primary and dominant position of the economic institution and the ceaseless and pervasive conditioning of the culture by the capitalist economy" [21, p. 257]. That businessmen and the "utilitarian and material values" enjoy prestige is not news [21, pp. 257–58]. A writer in the *Harvard Business Review* said, "Business leadership of voluntary groups is generally accepted as an important and desirable part of the American scene" [10, p. 4], and writers such as Neil Chamberlain proclaim that business values are "accepted as national values" [3, p. 10].

Chamberlain enlarged the corporate mission when he speculated that:

> it is not so fanciful to picture General Electric and IBM, Ford and ITT, LTV and AT&T — yes, even US Steel and General Motors — operating in two broad categories of activities: a profit-making sector in which they continue to exploit change and to probe the social environment purposely for ways in which to improve their earnings position; and a nonprofit sector in which they employ their organizational and productive talents, with appropriate political encouragement and tax incentives, to modify the social environment itself [2, pp. 509–10].

Chamberlain's fantasy is in some measure, reality today. Current interest in business participation in the nonprofit sector stems from its poor management with limited accountability. When resources were abundant, poor management was of little consequence. This "third sector" upon which so much that is valuable in American life depends, from social and human services to the arts, has never been organized with efficient dispatch. Outside of the United Funds no rational guiding principle exists in American philanthropy. The top independent health organizations addressing diseases such as heart, cancer, cerebral palsy, and lung raise money with a startling but random success. There is no correlation between a widely supported health nonprofit organization and its administrative overhead costs, the dangers and incidence of that particular disease, society's costs, personal costs, or death rates [1, pp. 201–02]. All of these health nonprofits compete for the discretionary charity dollar. Strong nonprofits are those that are most successful in the marketplace, that is, those that use the best public-relations personnel available.

Business in our century has justified its participation in philanthropic giving in many ways. Most corporations find that to avoid the wrath of shareholders, they must justify their good works. The lowest degree of philanthropy is evident in what is often called "fire insurance."[1] A business buys protection for inner-city plants from vandalism by a resentful community. This is cheaply bought by philanthropy when the costs in ill-will of not giving are considered [24, p. 13]. This enlightened self-interest leads inevitably to attempts to defuse those components in society that most seem to threaten effective business survival [5, p. 70]. Stability for business can also be fostered by responsible participation in reform movements that address social need. The progressive era axiom, then, is reaffirmed: the path of true conservatism is reform. The other choices are far less desirable: either abandoning the community or building a fortress to guard plant and employees [10, p. 6].

Another defensive argument urges business support of the nonprofit organization because it is private like business, and like all private institutions, the nonprofit organization must be protected from attempts to widen government control or regulation [9, pp. 103–04]. (Of course, since the Nixon and Reagan administrations, limits have been set to this form of public activity.) As one businessman commented before Nixon's election, the choice is either business and other private participation in the voluntary sector or government control that would be "supported by taxation at a greater cost to corporations and their stockholders" [24, p. 13].

Another claim for corporate support of philanthropy suggests that this is insurance for maintaining the "entire constitutional system...and the place of the corporation in the Western world" [9, p. 134]. Legal issues also encourage business participation in urban affairs. Two-fifths of the firms queried in one study claimed they participated in equal opportunity for employment and contractual awards in the community for the sake of compliance with the law [5, p. 70].

Mounting public pressures forced many firms to enter into these community-oriented programs in the late 1960s without careful analysis or preparation. As a result, many programs disintegrated when they were perceived as peripheral to a company's best interests in a changing political climate [22, p. 293]. Moreover, manager executive volunteers were not used to working with community activists or ghetto representatives on local agencies. Some bitter experiences first-hand led to withdrawal from direct service and to an inclination to contribute cash in place of an executive's time and a testing of his "patience and tolerance" [5, p. 74; 10, p. 4].

The potential for profit has not been overlooked. This paradox is evident in Richard Eels's argument that "enlightened self-interest" is the only appropriate stance for a corporation engaged in a philanthropy that meets the needs of the society while it serves the long-range needs of the firm, and, thereby, justifies the expenditure of corporate assets — human and material [9, pp. xi, 7]. Some companies expect growth in profits through the public relations dividends that philanthropic participation offers [10, p. 8]. I interviewed an officer at a major New York City international bank who had been in charge of a corps of bank volunteers at work in the city's ghetto communities in the early 1970s. He noted that the program was designed to improve executive morale by enriching participants' lives with the satisfying rewards of service to others.[2] This is a recurrent theme in the literature on volunteering. As another corporation executive said in the *Harvard Business Review*, "You know, a lot of the management jobs in this business aren't all that interesting." Without outside interests, managers "are going to get pretty frustrated" [10, p. 6].

This form of altruism also allows the executive to make a useful contribution. Difficulties arise when a nonprofit organization wants business expertise, but imposes limits on the executive's participation that leads to his feeling "underutilized" [10, pp. 4–5]. According to a study of executive volunteers, close to one-half of businessmen in the nonprofit organization setting feel underutilized. They implement rather than lead. Approximately 80 percent of businessmen volunteers find that this "token involvement is inadequate" for them [10, p. 5].

At the top levels of volunteer service, the prominent businessman is most often recruited for his status no less than for his skills. There is a predictable correspondence between a man's business position and his volunteer post. As one public relations head of a retail firm said: "As you go up in the business world, you go up in philanthropy. If you are at the top in a business or financial corporation, you will appear at the top of the campaign" [20, p. 537]. Influence, prestige, and money are what are necessary to recruit influence, prestige, and money. What Aileen Ross called the "inner circle" of prominent businessmen in the "Wellsville" Canada study is the instrument that controls the naming of leaders for all fund-raising and charity drives. They choose each other or designate an outsider who is offered a chance for a climb to the top [20, p. 538]. This assures self-perpetuation of the inner circle.[3] (Leaders in corporate philanthropy today seek to "professionalize" and systemize giving.)

There are conflicting results reported in current analyses of measurable effects of nonprofit organization leadership on businessmen and business. Some studies such as the Hofstra University assessment of business volunteers in Nassau County social agencies revealed that two-thirds of the participating companies gave no recognition whatsoever to their executive participants. The volunteers themselves overwhelmingly claimed that their service brought no benefits to their companies. Less than 10 percent even acknowledged the value of "contacts" made in service [23, p. 145]. Other studies modify these results.

At mid-management levels, the businessman volunteer may perform his voluntary service on company time.[4] About one-third of volunteer participants receive some compensatory benefits such as promotion consideration and bonuses for well-done service. Performance expectations in business are not the same as in the nonprofit organization. This may account for the anxieties about measurable results expressed by business volunteers as well as frustrations with the procedures of nonprofit organizations.

The very reason that businessmen are recruited by the nonprofit organizations leads to this tension. Businessmen are recruited for their management skills; they also introduce the virtues and vices of the bureaucratic model that provides organization, control, little flexibility, and cost-effective measurement of inputs, process, and outputs. Manager executives expect tangible results. They are frustrated when they are unable to reach the results they forecast [4, p. 108]. In fact, one study reveals that executive volunteers will set undertargeted goals in fund raising in order to guarantee a good track record. This "success" will reflect well on the manager's work, his career, and his corporation's work in the community [20, pp. 539–42]. The "Wellsville" study attested to the important publicity factor in city-wide fund raising. Publicity for the firm and corporate managers heading the drive exceeded conventional community advertising in importance [20, p. 542].

The manager executive who contributes his services to the nonprofit organization in all likelihood is eager to see the job done, seeks to streamline a less than efficient organization, and can enjoy the satisfactions and frustrations of volunteerism. He may cast a glance over his shoulder to acknowledge his company's surveillance of his job performance. By and large, however, his contribution is a gift, and the nonprofit sector increasingly depends on his gift and those from his colleagues. The donor expects to participate in the decisions on the use of his gift. The gift of personal service no less than of material goods and cash carries strings.

When a manager executive accepts a volunteer position on an agency board, there is the prospect that he can employ a measure of creative risk that is classically entrepreneurial and that is generally denied him in the ranks of middle management in his own firm. No doubt this can be a source of satisfaction. Is it likely to occur? Not as long as the manager executive serving in a policy position claims that he is underutilized in the nonprofit setting.

Even so, the manager executive's very presence and his business expertise affects the goal and priority-setting of the nonprofit organization.

Suggestions for hiring skilled and highly paid fundraisers and marketing experts come honestly from the manager executive [14]. Nonprofit development officers then contribute to the setting of priorities by encouraging activities that can generate funds. As one commentator has said, the executive is often surprised to find that the agency head earns less than his private secretary. The manager executive may seek to remedy these inequities in remuneration on the agency board, particularly when he introduces performance criteria for staff that when met, are rewarded. He may also encourage the employment of officers with business skills including the M.B.A. The raising of staff salaries crowns the businessman volunteer with power and popularity among underpaid agency staff [1, p. 158]. The introduction of performance criteria has been apparent in its most dramatic form in the last two decades in the pressures for growth on consumer-oriented nonprofit organizations such as hospitals and universities. Now the maintenance of the expanded facilities is pricing consumers out of the market. In the health industry this may lead to greater public regulation. For example, in February 1983, the New York State Hospital Council imposed a ten-month moratorium on all major hospital construction and equipment purchases.

Just as the nonprofit organization can be marketed like business, so, too, it can be managed like business. As one authority in the field said: "The nonprofits *are* organizations. They have objectives and there are management techniques that have been devised to assist an organization in achieving its objectives. The techniques do not depend on whether the organization is profit-making" [7, p. 183]. This is a moot point. We find disagreement in the ranks of both business and the nonprofits. From the business perspective, there is just too much frustration encountered on nonprofit organization boards unfamiliar with business processes. In response, IBM in 1982 introduced a five-day training seminar for nonprofit organization executives to build skills in planning, finance, and management. Over 860 attended [12, p. 25]. Some nonprofits are also unhappy with the consequences of equating the management and marketing issues of the two sectors. As the nonprofit organizations ally themselves with the dominant business values of the culture, they naturally try to use the best means to work toward their ends. These ends, if in the realms of social justice, social welfare, the arts, education, or religion, are transformed by the nature of the means employed.

The consequences for the nonprofit organization are manifest in a number of ways. Professional fund raisers adopt the business model in fiscal affairs, responding to the demands of corporate contributions staff; therefore, nonprofit organizations must budget costs for fund-raising and fund-administering staff and for professional outside auditors. Most importantly, true to bureaucratic imperatives, the institution must be preserved at all costs. Although bureaucratic order and design exacts its price, there is hope for a viable nonprofit organization when members of the business community challenge high organizational and overhead costs. As James Bere, chairman and chief executive officer of Borg-Warner Corporation, said, "Business assumes that donated money will be used for direct help to the needy, not for preservation of the transmission channel" [16, 3 October 1981, p. 21]. Bere has also addressed the need for risk-taking in the nonprofit organization [6, p. 20].

Organizational theory reminds us that expressly stated goals like profit can be measured easily when results are evaluated. But, as Peter Drucker points out, "Public service institutions always have multiple objectives and often conflicting if not incompatible objectives" [8, p. 78]. These multiple objectives in the nonprofit organization confuse businessman volunteers. They resolve their confusion by ignoring the complexities of the nonprofit organization and attempting to subordinate all issues to the fiscal imperative [1, pp. 139, 112]. Although the nonprofit organization does not have profit as its goal, it does not operate for loss, and it does have certain desirable results in view that can be predicted and then measured [8, p. 87]. Moreover, as an organizations's goals shift or new issues emerge, "the locus of power" also shifts to different groups emphasizing an appropriate and corresponding method. In a time of shrinking funds available for philanthropy, theory affirms the need for concentration rather than scattering limited resources widely. In that way, "overall decline" is rejected in favor of "selective improvement" [13, p. 173]. This principle has been effective in both profit and nonprofit organizations. It also suggests reasons for the current controversy in the United Fund giving.

United Way values and choices are traceable to its predecessors in charitable works. Already in 1894, the aims of the Chicago Central Relief Association of the Civic Federation included fund raising, a willingness to work through existing and new organizations, and to cooperate whenever possible "thereby preventing waste, duplication and imposition, and thus uniting economy with efficiency in the great work of relieving distress among the worthy poor" [19, p. 1]. During World War I many efforts at cooperation dominated business philanthropy that stressed scientific management approaches to charity. Our United Funds today are the legacy of the community form first used in World War I.

Critics of contemporary United Fund dispersments accuse business volunteers of caution and conservatism in policy decisions affecting admission, allocation of monies to member agencies, all to the detriment of minority interests and those agencies that challenge the social status quo. A recent analysis of eight United Funds by Deborah Polivy for Yale University's Program on the Non-Profit Organization points to procedural rather than ideological obstacles in the admission process of new member candidates. The United Way is the most prestigious of the nation's charities and always commands the leadership of high-management level executives. It is not an unwillingness to redress social inequity or injustice that accounts for the conservative position in United Ways. It is the carefully worked out policies that first assign base allocations to existing members and the assumption that stewardship requires efficiency and accountability and that donors will not tolerate controversy. United Way spokesmen invariable claim that the priority of pressing social need must first be met before politicizing groups are funded, and so they justify the exclusion of activist organizations.

President Reagan's recent executive order, when implemented, will exclude all advocacy agencies from eligibility in payroll deductions for the Combined Federal Campaign of government and military personnel. The United Way of America backed a coalition to lobby for this change [16, 17 February 1983, p. 12]. Just as public funds can impose limits on an organization's "freedom and effectiveness to engage in advocacy or social action," private monies impose equally powerful restraints on social activism [15, pp. 166–67].

An unlikely source, a radical theorist in social work, gives an unexpected justification of business practice in the United Funds. Ira Glasser offers a new rule of "measuring programs not by the good we hope they will accomplish but by the harm they are likely to do" [11, pp. 151–52]. This maxim identifies the danger of encroachment upon liberty particularly when the client is poor and powerless. The very record of caution in the business presence in the United Funds suggests to me that groups challenging the social status quo ought to remain independent of both public and private money in order to guarantee a modicum of risk-taking in the Third Sector. Bureaucratic modernization shackles the nonprofit organization to the future and narrows its potential benefits to society.

Some of the ambiguities of business and the nonprofit organization are evident in United States Protestantism in this century. Almost 80 years ago, Max Weber pointed to a link between church affiliation as a measure of credit worthiness and reliability in business affairs. Although he noticed that church affiliation did not depend on a test or examination of a man's honesty and moral steadfastness, it nonetheless was a stamp of integrity [25, pp. 306–07]. Today we have turned upside-down what was true then because the capacity for legitimate leadership in the nonprofit organization including the church often depends on a man's expertise, reliability, and success in the business sector.

Although the corporation rarely contributes directly to the largest nonprofit organization — the religious — that in 1981 represented $24.9 billion or 46 percent of the total nonprofit sector, it is clear that executive volunteers have nurtured the business method and process [16, 9 April

1982, p. 12]. The church in turn in its roles as donor and manager of charitable institutions often reinforces business influence on them. An important study by Ben Primer, *Protestants and American Business Methods*, demonstrated how main-line US Protestantism in the national boards of the Episcopal, Southern Baptist, Methodist, and Disciples of Christ churches adopted a business approach in the early years of this century. The business orientation introduced certain strengths, but also turned the churches in directions that poorly served their members. Why, for example, should national church agencies engage in secrecy along the lines of competitive business enterprise? As Primer noted, these strategies of secrecy included infrequent public meeting, guarded internal communications, and shortened annual reports [18, p. 166]. Such methods served the bureaucratic needs of the inner circle of power and deliberately excluded the member constituents from knowledge of their church's issues.

The nonprofit sector is just that. For agencies in it, legitimacy depends on their capacity to give in goods and services not always measuring yield or return. This nonprofit sector is committed whether through religious, artistic, or humanitarian conviction to goals that transcend the limits of codes and standard operating procedures. The nonprofit organization must learn to be wary of attempts to homogenize its separate perspectives and different hopes. If the nonprofit organization is faithful to its calling, it will rightfully then serve its constituents as well as its friends and supporters from business and government. These "outsiders" will also benefit from a larger, more comprehensive world view where the bottom line is only one of many considerations.

NOTES

1. One-third of the 201 companies out of 247 participating in this study claimed that their reason for urban affairs activism was for their own protection or "insurance" [5, p. 70].
2. Interview with Charles Ballard, Chase Manhattan Bank, 8 April 1982.
3. Interlocking directorates on boards of voluntary associations and corporated gifts to educational institutions of influential stockholders or board members are parts of the same issue [16, p. 235; 1, p. 179].

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