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Out of Philanthropy and Into Social Enterprise? Probably Not

Roger A. Lohmann
West Virginia University, roger.lohmann@mail.wvu.edu

Conversations On Philanthropy
Emerging Questions on Liberality and Social Thought

Out of Philanthropy and Into Social Enterprise? Probably Not

—Roger Lohmann

In his essay on "Rethinking Philanthropy and Business," David Ellerman makes it clear that he has little interest in the existing phenomenon that Bremner (1988), Payton (1988), Ealy (2009), McCully (2007) and others characterize as philanthropy. Ellerman's presentation of philanthropy in this piece is idiosyncratic, endorsing in turn both a residual, "government failure" approach and a market failure approach to which he adds his own "philanthropic failure" approach which, he says, could be corrected by corporate reform. The result is a view of philanthropy and nonprofit activity, which he says is much the same thing, as epiphenomena whose existences are conditional on the failures and inadequacies of corporate business in enabling individuals to address collective concerns through their work life. In this way, Ellerman seeks to move philanthropy entirely off the map of human affairs. In its place, he offers a fairly concise definition of what others today call social enterprise. His distinct contribution here may well be his effort to give voice to a firmly anti-philanthropic view within the literature of philanthropy itself. For those whose primary interest (and engagement with this journal) is mediated not through a primary interest in "business (in some sense)" but through an interest in understanding philanthropy, it appears that the Ellerman "rethinking" presaged in the title is largely a matter of simple and complete dismissal. That business may—or in some reconfigured form, would—offer a socially responsible venue for collective action is one of a number of unexplored presuppositions in the paper.

Given his declared interest in replacing talk of philanthropy with a focus on social enterprise, the paper holds little mystery about where he will eventually come out: philanthropy holds no promise of becoming a spontaneous order and needs to be reconfigured as socially responsible business (about which no view on spontaneous order is offered). There is, it would seem, no hope of spontaneity from the more conventional nonprofit sector of "outside-the-family organizational involvement to address local problems" (2009, 79), which is the conception of "philanthropy" Ellerman consistently employs throughout the paper. In contrast to the approaches of Bremner, Payton, Ealy, McCully, and others, philanthropy for Ellerman is synonymous with existing local nonprofit sectors and a faulty human project that ought to be discarded.

The Hirschman Typology?

Several presuppositions that appear to interest Ellerman most, or at least are a major theme of the paper, are discussed within a framework of exit and commitment he claims to be derived from the work of Albert Hirschman (1981). Ellerman's reason for introducing the Hirschman typology appears to be located in his subsequent elaboration of an extensive search-tree formalism. However, I fail to find any connection to philanthropy or, for that matter, to his central argument, although there are some potential points of entry to his social enterprise perspective.

Let me note here that Ellerman and I disagree fundamentally over our respective readings of Hirschman, and that this disagreement is systematically related to our respective views on philanthropy. As the title of Hirschman's 1981 book indicates, his formulation was a three-term model, locating exit, voice, and loyalty as strategic options (as the subtitle notes) *in response to decline in institutions* including firms, organizations, and states. In embracing this model, Ellerman appears to assume that philanthropy is currently either in a state of decline or has always been in the sorry state he sees it in at present. After a brief mention of Hirschman, he substitutes his own two-part formulation for the original, one that conflates Hirschman's trio into a pair of options, which Ellerman terms exit and commitment. Ellerman's commitment is a concept that places greater emphasis on what Hirschman calls loyalty than on what the latter terms voice. It also excises the Hirschman typology from its original context of strategic responses to institutional decline. Ellerman offers no explanation for why anyone faced with the state of institutional decline in philanthropy that he alleges should have only the options of fleeing or remaining committed to a deteriorating institution. His own formulation, as noted above, steps outside those narrow choices and gives voice to a thoroughgoing reform strategy.

The overall effect of his narrowing of Hirschman's options enables Ellerman to channel any resulting discussion of philanthropy into instances in which philanthropic impulses can only serve to depart completely (as he himself does) or embrace without challenge the existing philanthropic order. In other words, by this theoretical narrowing of Hirschman he deprives philanthropists of what many in the field would see as a primary avenue of arresting institutional decline: giving voice to their discontents.

This constitutes a rather subtle elimination, at a conceptual level, of almost any possibility of an emerging spontaneous order in philanthropy, by removing the theoretical grounds for such emergence. In effect, Ellerman's discussion and his branching diagram offer philanthropists two options: they can go along with things as they are, or they can leave. He even explicitly refers to this choice as a refinement of the "love it or leave it" option. What the original Hirschman argument said, however, was more along the lines of "love it, leave it, or speak up about it."

It might be interesting for a deeper understanding of the potential for spontaneous order in actual philanthropy (as opposed to Ellerman's straw man) to develop the branching diagram within Hirschman's original tripartite distinction, allowing room not only for exit and loyalty but also for voice (in such diverse forms as assembly, representation, speech, petition, and protest). For it is in voice where much of the action and in particular the possibilities of both spontaneous order and of independent philanthropy are to be found. By excluding voice, Ellerman in effect cuts philanthropy off at the taproot. For voice, far more than exit or loyalty, is a key dynamic of philanthropy, even in Ellerman's narrow sense of "outside-the-family organizational involvement to address local problems."

The omission of philanthropic voice is, however, consistent with the other parts of Ellerman's argument, such as his statist assumption that philanthropy is a derivation of government failure. This arises first in his question, "How might people address their community's social and environmental problems *to the extent that government is ineffective?*" (2009, 79).Ellerman himself clarifies this issue for any who might doubt that this question embodies a government-failure thesis. He makes quite clear in the final paragraph of the paper that it is his intent to see philanthropy and nonprofit organization as not arising independently but at least in part from the failures of government.

One might well wonder why he takes this tack. In combination, these rhetorical devices enable Ellerman to present nonprofit philanthropy as a weak and febrile phenomenon largely without redeeming social value and incapable of improvement within the narrow dynamics of exit and commitment, devoid of voice, and thus any possibility of spontaneous order. Small wonder that Ellerman seeks to dismiss such an emaciated model of philanthropy and replace it with what he sees as a more robust, dynamic model of socially responsible business enterprise. A pesky question we must ask is whether such an anemic portrait of philanthropy has any grounding in reality, or if it serves only as a straw man to be upended in favor of the more robust, virile, socially responsible business Ellerman obviously prefers. For many of us, another question is whether philanthropy and social enterprise should be seen as mutually exclusive alternatives?

This brings us around to the rationale of his argument: the great mystery here is why Ellerman bothers to even mention philanthropy. Clearly, his first interest here is corporate reform in the business sector to foster greater responsibility and social engagement of business. This is a reasonable and enlightened objective that can easily be pursued with little or no attention to philanthropy. Why, then, does he bother? (For one possible answer, see my comments on his late introduction of the market-failure thesis, later in this essay.)

Similar derivations of government-failure theory have often been employed to rationalize philanthropy as a by-product of public sector inadequacy or failure. This is a presupposition that simply gets things backwards, at least in the American case. As Richard Cornuelle (1964) first suggested, a genuinely *independent* (and primary) sector for philanthropy requires no derivation from failures of either government or market. I have argued that it makes greater sense to see an independent sector as the staging area for organizing republics and democratic government than the other way around. Abraham Lincoln's evocative formulation of republican democracy as "government of the people, by the people, for the people" suggests in part that legitimate political states are formed in public or civic space outside of both governments and markets and take their legitimacy from the philanthropic acts of the citizens who form them.

Countless examples support this view, including such major social acts of philanthropy as the American Revolution and, earlier, the Mayflower Compact (McCulley 2008). In such cases, a group of citizens voluntarily associating elects (both in the sense of choice and of representation) to form a governance structure or a market without raising our suspicions. By contrast, if an existing market or government elects to form a philanthropic project of any sort, suspicions in some quarter will almost certainly be aroused. It is a principal challenge of Ellerman's logic to address those suspicions in the case of corporate business.

Ellerman’s conflation of loyalty and voice into the single dynamic of commitment also has the unfortunate effect of effectively ruling out of bounds some of the most distinct and effective potential loci of spontaneous order or change in philanthropy. The case of the Puritans on the Mayflower may be slightly ambiguous: formulating that compact situated voice within a dual strategy of exit from merry old English persecution and the need to elicit loyalty to ensure survival in the wilderness of North America. However, the case of the American Revolution as philanthropy is, following McCully, much more clear on this point. By focusing on the voices of the revolutionary patriots, we can easily see that this particular revolution was a gift to the world and to history of a distinct vision of a workable democratic republic. The Declaration of Independence, the Articles of Confederation, the Federalist papers, and the Constitution and Amendments (notably the First), as well as other, lesser-known documents such as the letters of the committees of correspondence, all might be recognized in philanthropic terms and termed gifts of liberty to the human community.

By contrast, interpreting the American Revolution as philanthropy within the Ellerman model dulls much of its luster. It reduces the matter to a choice between exit (from the British Empire or back to the empire for the Tories who exited to Canada) and commitment (to the new republic). In this dual choice, the larger significance of these historic events for the rest of the world is lost entirely, precisely because the voice of the revolution is lost. And how these events would have been better served philanthropically by socially responsible, profit-oriented business activity is a mystery. Yet, operating within Ellerman’s logic, these are the only options.

In more contemporary, pedestrian, and mundane terms, philanthropic mission and vision statements, advocacy activities including protest demonstrations, assorted manifestos, strategic plans, and numerous other examples taken from contemporary third sector practices all illustrate similarly provocative and enduring roles of voice in philanthropy, even in the narrow sense in which Ellerman defines it.

Exit and Brand Loyalty

The absence of voice in Ellerman’s paradigm also means that his treatment of the relationship between market and exit is also rather one-dimensional and ultimately unconvincing. It may, indeed, be the case that denizens of markets exercise exit options when the price is not right for them. However, the suggestions that exit or commitment (perhaps in the form of brand loyalty) are the only options and, more importantly, that only in markets can exit be exercised, are equally false and misleading claims. Strikingly similar exit options are available to all participants in voluntary activities of all types, and philanthropy in particular. Members of an organization may exit at any time; that’s why it is called voluntary association. Likewise, donors may simply withhold their donations, and volunteers may withdraw their volunteer labor. The problem often is that a simple choice between mute commitment and exit isn’t really the range of choice members, donors, or volunteers may be looking for. At times they just want someone to notice, speak out, or listen.

Moreover, the choice between exit and commitment as Ellerman presents it here serves also to minimize or discount the spontaneous order of philanthropy in an area close to his main interest: the kind of philanthropic entrepreneurial activities that might best be termed product definition and market formation. As I have noted elsewhere, the creativity of spontaneous orders is not limited entirely to business (Lohmann and Lohmann 2002, Lohmann 2009). One of the things philanthropic enterprises sometimes do, at times exceedingly well, is spontaneously define through their philanthropy new products and services which are subsequently shown to be commercially viable and around which new markets may form. Long before there was an insurance industry or any life insurance products in the world, nineteenth- century mutual aid and self-help organizations in the United States and Europe pioneered this field and demonstrated the enormous commercial markets latent in their “burial funds.” The fact that they may not have done it as profitably as the later insurance industry is less germane than the fact of the spontaneous generation of a new market order through their philanthropy. Much the same can be said more recently for child and adult day care, home health and homemaker and chore services for the elderly, home-delivered meals, and most forms of education.

It is certainly not my intent to suggest that philanthropy is the ultimate source of all (or even much) market innovation. That would be an absurd suggestion. However, it is equally erroneous to ignore or discount any philanthropic role in product development and market formation. And both voice and spontaneous order in philanthropy are often closely associated with such innovation.

Simon Says: There Are Lumps in That Buttermilk

The part of Ellerman's paper that is most important for his project is his introduction of Herbert Simon's analysis of markets and organizations. Whether other Austrian economists concur with him regarding Simon's thesis on the relative balance of markets and organizations will remain relatively unimportant to the study of philanthropy. However, the recognition of the importance of organizations is an important one that bodes well for any understanding of philanthropy precisely because so much of the current philanthropic enterprise institutionally resides in organizations and there are so few genuine, recognized philanthropic markets.

It is in this discussion that Ellerman outlines his strongest defense for the social enterprise perspective which appears to be close to the heart of his interest. He writes, "one does not need to look to the philanthropic sector to find alternatives to the narrow self-interest usually taken as the model of market exchange." (2009, 84) The use here of the phrase "philanthropic sector" is one of numerous indications throughout that Ellerman equates the nonprofit sector and philanthropy, as noted. And one can agree with him that narrow self-interest need not equate with market exchange. There is room here for Adam Smith's moral philosophy alongside his economics, and for some Tocquevillian "self-interest properly understood."

Ultimately, space must be made in Ellerman's project for discussion of possible exceptions and lacunae in the rule of thumb that corporations legally serve the interests of their shareholders only when they are profit-maximizing. The statements above in which Ellerman outlines a focus on local, community-level concerns offer support for a more engaged social enterprise perspective quite independent of any concern with philanthropy. Whether in new product development; disaster recovery contexts in New Orleans or Biloxi; in the consequences of deindustrialization that remain concerns throughout the Rust Belt and beyond; or in other instances, socially responsible business is not so much in conflict with independent philanthropy as with its own legal strictures and limits. To suggest that this must be seen in a kind of either-or choice of philanthropy or social enterprise is misleading.

To forget about philanthropy completely and address his vision of social enterprise directly would be the most logical next step for Ellerman along the path he sets out here. Unless some partial resolution of the question of establishing shareholder responsibility is addressed, Ellerman's vision of reestablishing business responsibility seems futile, much less capable of harnessing "the far-flung shareholders from the social and environmental impact of their 'corporate governance'" for "outside-the-family organizational involvement to address local problems." And without such reforms in corporate governance, supplanting philanthropy through reforms in corporate social enterprise—which seems to be Ellerman's ultimate objective—would remain pretty much an empty gesture.

But it is equally clear that reforming business corporations has little to do with the primary concerns of most "philanthropologists" (to use Amos Warner's 1896 neologism for those who study philanthropy). For Ellerman, however, such changes appear to be the very essence of overcoming the institutional decline he sees in philanthropy, as noted in the final section of his paper, because he seems to believe—in contrast with civil society theorists and most sociologists and political theorists—that the corporate workplace is the primary non-family feature of modern social life.

"Beyond the family," he says, "most people have thick day-to-day participation in only one organization: their workplace." And thus, he continues, "The more natural site for collective action to address community problems would be where people are involved in effective collective action all day long: their work organization" (2009, 94). In Ellerman's hands, this does not appear to invoke any familiar workplace philanthropy such as workplace giving campaigns.

Furthermore, Ellerman appears to discount completely those workaday philanthropoids who have some minimal engagement in work-related activity and whose real interests and engagements are wrapped up in church, membership associations, social networking, and forms of social action. He simply equates civil society with commercial society, almost as though Adam Smith had written only *The Wealth of Nations* and Adam Ferguson had written only of civil society. Yet his argument against philanthropy is upended when one recognizes that for the idle (not employed) wealthy, retired, unemployed, adolescent dependents, and numerous others, "thick day-to-day participation" in the workplace does not accurately describe their circumstances. Even at those moments in history such as the present where Ellerman's "most people" statement may be at least partially true, one might respond that there is nothing inherent in the nature of philanthropy that makes it an issue subject to majoritarian rule. And even if it applies only to a minority, one cannot blithely discount the reality of philanthropic involvement lacking any discernible links to the workplace.

All of the diverse considerations and preconceptions of Ellerman's perspective come together in the final section of the paper, where he offers his own unique and ahistorical explanation of the existence of contemporary philanthropy-as-nonprofit-sector as a response to the failure of the corporate structure of absentee-owned business to solve the problem of collective action in the workplace:

> Our analysis suggests that the root of the matter is that *the primary organizations for effective collective action* are limited by their ownership structure to narrow, profit-maximizing goals, and this in turn requires the strengthening of the third, "nonprofit" sector which attempts, often ineffectively, to address the social problems unresolved by government (2009, 95). [emphasis added]

That last sentence of his essay effectively summarizes Ellerman's commitment to the combined market-failure and government-failure justifications for the nonprofit sector and to the philanthropy = nonprofit sector presuppositions on which his call for corporate reform is premised. For him these compound failures do not yield contending explanations for how philanthropy is derived, but point instead to corporate reforms that would simultaneously eliminate any necessity for both independent philanthropy and government action.

The proof here is in the pudding: Until there is evidence of the corporate reforms he proposes actually eliminating absentee ownership and increasing corporate responsibility combined with further evidence of increased workplace-related engagement with major social problems, it will be interesting to contemplate the possibilities of Ellerman's call for local social enterprise, but impossible to take seriously his dismissal of philanthropy and the nonprofit sector.

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