

The Wherewithal of Society:

An Accountability Challenge to Private Enterprise

by A. W. “Buzz” Schmidt

In this article, the author argues that any and all enterprises need to be held to account for their contribution to—or depletion of—those things that are necessary to sustain a healthy society. He calls these, “elements of community capital.” This article is meant as the beginning of a conversation.

Author’s note: *This article entreats investors and philanthropists to hold enterprises of all kinds accountable for their net (positive or negative) contributions to society’s wherewithal. I use the word “wherewithal” throughout to characterize the collection of resources, competencies, knowledge, systems, and facilities that a healthy society must possess to move forward. The word derives from “wherewith,” which is used extensively in early English classical literature to indicate the “means with which” one might take on or complete a prospective challenge or transaction. Some believe the suffix “al,” also archaic, meaning “all,” reflects inclusion, or—in my construction—all the means required for a healthy society to advance.*

OUT-OF-CONTROL BUDGETS, DYSFUNCTIONAL legislative decision making, and perceived bureaucratic ineffectiveness have driven citizen faith in government solutions to social problems to an historic low.¹ And, while public faith in virtually all “traditional” institutions wavers, we are seeing an explosion of “innovative” strategies designed to increase the productivity and propensity of private nonprofit and hybrid (mission-driven for-profit) enterprises

to solve social problems. Over the past decade, these strategies—mission-related investing, social venture capital, social impact bonds, philanthrocapitalism, impact assessment schemes, and the like—have captured a surfeit of policy-maven mind-share, digital ink, and seed funding. But despite their innovativeness and theoretical potential, these private strategies remain generally unproven, disconnected from one another and cohesive public policy, and—strangely—proprietary. More importantly, they are largely silent with respect to what may be the main event—*traditional commercial enterprises and the fundamental implications of that work for social progress*. After all, it is commercial enterprises, both large and small, that employ most of us, generate the great preponderance of our financial and intellectual capital, and impact our environment, communities, and governance in ways—both positive and negative—too numerous to count and too great to ignore.

The objective of this article is to motivate citizens and philanthropic institutions to think broadly in their dealings with the full range of private enterprises, to understand how each enterprise contributes, or not, to the long-term resources of society, and to deploy those resources accordingly. The article first offers an explanatory schema for seven core components of capital—*financial, human, intellectual, civic, systemic, natural and physical*—that comprise what I am calling society’s “wherewithal.” It next touches upon the historical/legal context and practical

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distinctions among nonprofit, hybrid, and commercial enterprises before turning its focus to specific consideration of the impact commercial enterprise has on social progress. The article then makes a case for investors to take full and conscious responsibility for decisions to invest their funds in specific enterprises, while noting the institutional impediments that have arisen to direct investor cognition and action. Observations about the contributions to society's wherewithal made by nonprofit and hybrid enterprises, and their relationships to those made by traditional commercial enterprises, follow this analysis.

The Seven Capital Components of Society's Wherewithal

Society's dependence upon private enterprises to build or preserve a robust complement of competencies, knowledge, facilities, systems, and natural conditions conducive to society's well-being is a central thesis of this article. These competencies comprise the core capital of society, the wherewithal it must have to sustain economic opportunity, enable human progress, and ensure future peace, democracy, and prosperity. The seven capital components described below represent a first attempt at establishing a helpful framework for analyzing the net contributions of our enterprises to society's wherewithal. Each component is necessarily an amalgam of related capital elements, and the groupings of elements and component names are preliminary and hardly definitive.²

- **Financial Capital:** Financial capital is the universally necessary ingredient for the care and feeding of all enterprises. Our enterprises' long-term contributions of financial capital are necessary to build or restore society's store of lubricating capital. Any enterprise that loses money, over time depletes (negatively contributes) society's store of financial capital. Nonetheless, a negative contribution of financial capital may satisfy expectations, given an enterprise's contributions of other forms of capital.
- **Human Capital:** A prepared, productive, healthy, and motivated population is critical for the future wherewithal of society. The propensity of enterprises to "turn out" great people constitutes a huge contribution to society's store

of sustaining capital, but respective contributions of human capital vary tremendously among enterprises. Enterprises contribute to society's store of human capital directly in the form of educational products and services and indirectly through development of their own employees.

- **Intellectual Capital:** A society cannot progress or compete, especially in a global economy, without continuing production of intellectual capital, such as production/technological know-how, hard science, art, and social science. Enterprises can make contributions to society's intellectual capital through products and services that are intended to advance the society's knowledge, as well as through the intellectual content in their own internal operating methodologies. One of the ways enterprises contribute is through formation of spin-off enterprises that further exploit the intellectual capital of the original enterprise.
- **Civic Capital:** A healthy, engaged, trusting citizenry is an enormous source of wealth for every society. Enterprises can have enormous, but not always positive, impacts upon society's civic capital. Contributions by enterprises directly and through their employees can do much to support civil society, cultural advancement, and sustainable/fair employment expectations, all of which are important elements of sustaining social capital. Enterprises can also do great damage to the fabric of civil society through inconsistent practices in these areas as well as through practices that compromise the integrity of our political systems.
- **Systemic Capital:** Society's functional health requires a healthy component of capital in the form of its physical (roads, bridges, waterways), communications, health, legal, and economic systems. Enterprises are often formed to construct elements of society's systemic capital—it is their business purpose. Further, through their operating practices, enterprises can make positive or negative contributions to these systems (for example, positively, through fees that support roads for everyone, or negatively, through exploitation of common physical infrastructure or erosion of the integrity of economic or financial systems).

- **Natural Capital:** Access to a plentiful store of natural resources—clean air, clean water, stable temperatures, minerals, energy, timber, fertile soil, and other resources—comprise society’s fundamental store of productive resources and are a precondition for the existence and success of all enterprises. Through both the substance of their products and services (for example, passive energy products) and their ways of conducting business, enterprises have the potential to have enormous impacts (positive and negative) upon society’s store of natural capital.
- **Physical Capital:** Society’s inventory of fit-for-purpose production facilities, operating technologies, and distribution systems, most of which reside within its collection of enterprises, is a critical component of its collective wherewithal. The quality, productivity, and condition of an enterprise’s facilities and systems are a substantial determinant of its contribution to society’s physical capital.

Legal Context and Practical Distinctions among Enterprise Types

As we contemplate the wherewithal-building role of enterprises, it is important to remember that there is nothing ultimately sacred about their existing corporate and tax statuses. Tradition—both red and blue polity—and the current law of the land hold that society benefits when citizens are permitted to organize their work across a range of distinct enterprise forms. In turn, each form is defined by a discrete combination of fiscal attributes such as limited liability, perpetual life, tradable securities, earnings retention, corporate personhood, tax exemption for “public” purposes, etc. Theoretically, the available range of enterprise forms helps society deploy of its resources effectively, offer incentives for long-term performance, meet unmet needs, and pursue strategies to generate society’s wherewithal. However, if at some point via our democratic (constitutional) process we determine that our current enterprises are failing to do the job for society, then their rights of formation and existence are fully revocable.

Further, with respect to the net implications of its work for society’s wherewithal, a random private enterprise will not fit automatically into

one of three tax-status-defined—nonprofit/good, hybrid/mixed, and for-profit/agnostic—buckets. And when we look at what private enterprises—nonprofit to commercial—contribute to society’s wherewithal, we are likely to see as many differences within as between categories. The tax status of organizations is not necessarily the best predictor of an enterprise’s substance or social value.

Because we seldom think holistically about commercial enterprises, it is useful to focus directly upon the vast divergence in the net contributions to society’s wherewithal made by our commercial enterprises. The financial bottom line hardly begins to explain an enterprise’s net value to society. Citizens must do a far better job of understanding the respective net contributions of commercial enterprises and direct investment and consumption to those enterprises that truly advance the ball for society.

Assessing the Role of Commercial Enterprise

It’s not that commercial enterprise has been given a full analytical free pass. For thirty years, negative-screened mutual funds have directed significant public and maybe more limited investor attention away from companies that produce tobacco, firearms, and alcohol or do business in rogue countries. More recently, increasing awareness of climate change has led to establishment of green corporate behavior indices and funds designed to exclude the worst-behaving corporations or include the best-behaving ones. The latter, more positive screening approach has been used recently to identify corporations that by some method are judged to advance stronger communities. Other surveys identify the best companies to work for and those with the best overall public reputations. Porter and Kramer’s “shared value” conception promotes corporate strategies to connect “companies’ success with societal improvement” by “reconceiving products and markets, redefining productivity in the value chain, and building supportive clusters at the company’s locations.”³

But, at the end of the day, we don’t need more analysis documenting the exploitative qualities of commercial enterprise nor a new corporate epiphany about their potential to build lasting societal

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value. There are already thousands of truly great wherewithal-creating commercial enterprises out there. These are enterprises that build a globally competitive work force; enhance the quality of civic life and opportunity for citizens; strengthen our economic, physical infrastructure and political systems (and, just as importantly, public faith in those same systems); generate our store of intellectual property; impact neutrally or positively the quality of our climate and natural environment; and generate long-term financial wealth.

Likewise there are companies that through their policies corrupt our political and financial systems; erode public faith in the fairness of economy; market products that seriously diminish the health and welfare of the population; and rip communities apart, generally dissipating society's wherewithal, despite "healthy" reported earnings.

Investor Responsibility and Institutional Impediments to Progress

In the final analysis, *how* an enterprise operates is fully as important for our productive future as what it produces or what it earns. For society's purposes, the so-called externalities that result largely from the "hows" of enterprises doing business are intrinsic, inseverable components of their core activity. Before we spend any more time building new corporate forms and collaborative constructions, we must recognize the vast differences in the net contributions these enterprises make to society's wherewithal and put our money where our values are. This recognition is especially critical in an era in which everyone understands the limitations of government. We can no longer cavalierly ignore the net positive or negative contributions that our enterprises make to society's wherewithal and effectively abdicate our voting rights in this resource allocation process to financial intermediaries, the interests of whom, it would seem, diverge significantly from our own.

Seizing the voting franchise will require of us a far greater understanding of the impact, positive or negative, enterprise policies and activities have upon society's wherewithal and progress. But first we must overcome two entrenched systemic barriers to society's wherewithal investment. The first barrier is the prevailing "best practice" dogma that

demands that investors recognize only historically assessed financial risk and reward when putting corporate securities into their portfolios. As a consequence, investors are conditioned to ignore the fundamental work practices, corporate policies, and even products and services of the companies in which they invest. The second barrier is the prevailing and conscious practice of commercial enterprise managers to maximize short-term earnings at the risk of damaging long-term corporate and society's wherewithal, with the incidence of that risk falling entirely upon shareholders or taxpayers.

No doubt many of these behaviors are fostered by a mushrooming industry of financial intermediaries. Over the past thirty years, the finance industry's share of GNP has doubled from roughly 4 percent to over 8 percent.⁴ Given that finance exists to facilitate the provision of financial capital to the operating enterprises of the economy, the finance sector's growing share of GNP now effectively comprises a large tax on a relatively diminishing productive sector.

This direct tax on the economy is accompanied by a further dysfunction. This steadily increasing share of the economy enjoyed by financial intermediaries constitutes not only a pictorial but also an actual immense wedge between investors and their investments, resulting in the faster turns of holdings and short- rather than long-term investment horizons, risk-generating derivative trading instruments, substance-neutral asset allocations, etc.

While a handful of activist shareholders will confront the highly public and egregious behavior of a News Corporation or a large-cap company's failure to extract full shareholder value from its collection of assets, these initiatives arise only sporadically, affect a very small number of corporations in the moment (and then only at annual meetings), and miss the point of society's wherewithal generally. While investors struggle to understand the numerical machinations of the experts, they lose sight of the fundamental work of the underlying entities to which their investment dollar, after the intermediary's cut, finds its way.

It wasn't always like this. To be sure, it would be a mistake to over-glorify a past conception of "Greatest Generation" investor sensitivity to the values of the companies in which they invested.

Nonetheless it is instructive to remember that fifty years ago mutual funds held stocks an average of six years rather than today's one, and institutions owned only 8 percent of equities versus 68 percent today.⁵ Stocks held in mutual funds in the 1960s could be expected to change hands every six years. Today, on average, they turn over annually.⁶

Implications for Categorizing Enterprises and "Social Investment" Strategy

If we as citizen investors overcome these barriers and find the means to assess the relative contributions our commercial enterprises make to society's wherewithal, we would expect to realize a greater connection between our values and commercial enterprise outcomes. We would also achieve a more complete understanding of how citizens do their work and how the wherewithal-advancing attributes of vast numbers of commercial enterprises intersect with the manifold activities of nonprofit and self-described "hybrid" social enterprises.

What about the holistic contributions of these entities? I would expect to find a similar, if not quite as vast, divergence in the respective net contributions of nonprofit and hybrid enterprises to society's wherewithal. Some nonprofit and hybrid enterprises would make materially greater contributions than others, well beyond their financial and specific mission results.

The category of enterprise (nonprofit, hybrid, commercial) ultimately may not tell us very much. Theoretically, viewed through this contribution to society's wherewithal lens, the enterprises of society inhabit a wide continuum from low to high net contributors, with enterprises of various types and tax statuses mixed together across the array. Anyone who believes in the importance of private enterprise in fostering social progress must endeavor to understand the net contributions that these enterprises, regardless of tax status, make to the cumulative wherewithal of society and invest, consume, and donate accordingly.

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A full understanding of enterprises' contributions to society's wherewithal will allow us to

define enterprises by their intrinsic contributions to social progress. If adopted, this holistic perspective will have substantial implications for philanthropy, investment portfolio theory, public policy, corporate law, and business model definition and strategy for all enterprises. Ideally, such a schema should compel socially sensitive investors, citizens, and institutions to identify and invest resources in those enterprises that contribute most positively to society's cumulative store of sustaining wherewithal, as well as encourage leaders of all private enterprises to pursue business policies to optimize their own contributions.

NOTES

1. Gallup's September 2011 poll found that the percentage of those polled responding "not very much" or "none at all" with respect to their trust and confidence in Congress had risen to 69 percent, from 25 percent in 1972.
2. Of course, once components are selected for analysis, additional issues arise. For example, how do we measure an enterprise's contribution to each capital component, and how do we weigh respective contributions to calculate an enterprise's net contribution? Rather than dwell now on these complicating factors, the purpose here is in this first instance to focus only on a list of capital components in order to facilitate serious consideration and/or criticism of the general proposition.
3. Michael E. Porter and Mark R. Kramer, "Creating Shared Value," *Harvard Business Review*, January–February 2011, reprint page 7.
4. "Kauffman Foundation: Consequences of Financialization," April 18, 2011, *The Investments Blog*, <http://theinvestmentsblog.blogspot.com/2011/04/kauffman-foundation-report-consequences.html>.
5. Marshall E. Blume and Donald B. Keim, "Changing Institutional Preferences for Stocks: Direct and Indirect Evidence," University of Pennsylvania, Social Science Research Network. (Posted March 18, 2011.)
6. John C. Bogle, *Don't Count on It!: Reflections on Investment Illusions, Capitalism, Mutual Funds, Indexing, Entrepreneurship, Idealism, and Heroes* (Hoboken, New Jersey: John Wiley & Sons, Inc., 2011), 148.

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