

SERVANT CAPITALISM: A Pathway to Enlightened Investment

A hundred years ago, the notion of an “investor” conjured images of stuffy British bankers in pin-striped suits, dropping coins into vaults and stock certificates into boxes. Today, we’re all investors. Whether you are a schoolteacher whose withholdings build your pension, or a graphic designer with a mutual fund, or an heiress with trusts and offshore accounts, we are all using funds to build and manage our lives. Increasingly, however, we are realizing that the large companies that constitute the backbone of most portfolios are engaging in practices that are exploitative, unethical and even illegal. This places the well-meaning investor in a dilemma.

The dilemma is this: if we continue to invest in a philosophy of business that places profit at the expense of all other values, we will compromise the future of the world. Already, our casual disregard for the seas, the rivers, the coral reefs, the forests, and the cultural integrity of the world’s peoples has done great harm. If we persist, even the wealthiest among us will not be immune. We will lose the ozone layer, the green skin of the planet, and possibly the viability of our water supplies. Thus the naïve adage of working and saving to “create a better life for our children” may have already reached its logical end. If we understand that the blue chip stocks that constitute our savings are the very agents of our demise, we must seriously rethink our investment strategies.

Socially conscious investors can steer their portfolios around the products and services that are noxious to their morals. *Proscriptive* screening tools allow the refinement of investment targets: avoiding petrochemical firms, tobacco sales or arms dealers; weapons manufacturers or liquor producers. The marked growth of funds like Domini and Calvert are testaments to our interest in wiser investments. This is a valuable step, *but a strategy of avoidance is not enough.*

Proscriptive approaches do not invest in, and cultivate *actively*, the products and services that will construct the kind of world we dream of. *Some of the most valuable products and services in the world today are languishing as a casualty of investment motives: they are neither traditional charities petitioning for funding through well-marked grant pathways; nor are they necessarily scaleable businesses pitching venture capitalists. They are small businesses founded by entrepreneurs of limited means and extraordinary talent. They need and deserve a new kind of investor.*

The investors of the world – big investors with billions, and little investors pooled into mutual funds – are creating our future with the commitment of their dollars. What will we do with the funds that are ours? What future will we build for our children? Our hopes for more profits may come at the cost of oxygen, beauty, wilderness, and peace of mind. Are we sure that profits are all that we're after? How do we foster a business sector less focused on this one valuable, but ultimately meaningless goal – of more? Can we measure success differently?

Of course we can. We invented the investment system, and we have it within our power to change the rules. We need to call out a new investor class, committed to cash-flow sustainable business models that provide needed social and cultural enrichment. I have termed this investment philosophy “servant capitalism,” after the initial work by Robert Greenleaf in servant leadership. Greenleaf asserted that a servant leader is mindful of the needs of the whole, and organizes efforts toward what is best for the group, not what is most flattering to the leader. In that case, he was talking about a business, or an institution.

I am talking about applying the ethos of service to the investor. This is a new process and new perspective on the very act of investing, so its forms and optimal expressions are as yet not well defined. However, instructive examples do exist. Linux, the famous operating system, evolved through the shared interests and knowledge of all participants. Mondragon, a cooperative in Spain, was launched by a young monk interested in relieving economic poverty by investing in the local small businesses. Today it is valued at approximately \$5 billion. The most unique feature of Mondragon lies not in its structure, but in the investment ethos in which it matured: small business owners were mentored in an environment of faith and support. The success rate is 99% - a giant leap higher than typical small business survival statistics, in the U.S. or elsewhere.

Servant capitalism is conceived as the movement of funds through an ecosystem of businesses via a *circulation* model of capital flow, such that a related range of products and services are encouraged to grow. One relatively modest endowment could catalyze a whole array of small businesses dedicated to reinspiring our social fabric, and constructed to cooperate more intelligently with the wisdom of nature. Profits in more lucrative ventures are recycled to support newer, or less profitable undertakings. Financial returns of the portfolio are capped at a low rate, thereby thwarting temptations associated with excessive self-interest, while encouraging profitability.

The businesses that are ripe for investment from a servant capitalism perspective are those that nourish and renew the human spirit.

Let me offer a few examples:

- Thomas Dreiss, a developer in San Antonio, Texas, has found a way to craft environmentally sensitive land planning, blended with conservation and residential development, that preserves the beauty and character of the landscape. Instead of maximizing profits, he has found a business model that pleases him, his customers, and the golden-cheeked warblers whose habitat he saves.
- Daniel Mack, a former television producer, abandoned the bright lights of New York to create, instead, rustic furniture, one twig at a time. His sensitive relationship with the spirit of nature is infectious; he now conducts seminars in such ‘rustic’ encounters that provide deeper psychological insights for his apprentices. In addition, he creates educational experiences for public school children, often deprived of art and nature. In his quiet way, he fosters a richness for others while supporting his family.
- Erik Mutén, a psychologist and stage director, spent seven years working with partners to develop methods of psychodrama that are rich in depth and insight, and yet tailored to corporate and trade audiences. He integrates insight, humor, entertainment and creative problem solving to help groups take responsibility for solving their own systemic problems.

These businesses are sustainable on a cash-flow basis; some of them are relatively profitable; but they fall under the radar of investors or grantors because the “upside” is limited. So why do they need investment? Because these entrepreneurs, and others like them, are the initiatives that seed a richer shared future. In each case, the entrepreneur has found a way to combine commerce, artistry, and a sensitivity to nature – human or otherwise – and forged a product line that is commercially viable, but not easily replicated. These products and services foster visual and psychological wealth, while operating as businesses. These businesses reflect the wealth of spirit

contained in the founder, yet they cannot attract traditional private equity investors because the profitability is inadequate to appeal to a venal appetite.

These little gems are investments that heal both provider and receiver.

These are investments whose effectiveness could be greatly enhanced through careful nurturance and leveraging, but whose integrity would be distorted by aggressive scaling or market push.

These are areas ripe for investment by a new kind of investor. In the astute management of capital, we could and should be mindful of which kinds of businesses are best suited to which kind of investment goals. While there are myriad funders for scaleable ventures and charitable causes, the “pipeline” for investment in the very vitally needed areas – with little upside and limited scale, yet possessed of practical and needed qualities of inspiration, sensitivity and beauty – is limited and virtually unknown. This is the area of opportunity for servant capitalism.

Consider this: the default managers of our healthcare system today are insurance providers, pharmaceutical representatives, and medical equipment producers. Which of these behemoths is interested in the soul of the patient, or their quality of life? Is profit an appropriate goal for all of these participants in the primary goal of healing? Meanwhile, Americans are seeking and paying more holistic healthcare providers than ever before in an attempt to feel whole. Medical care is so modern now that old-fashioned values of compassion and rest do not fit comfortably into the profit scheme. Who will invest in a desperately needed new experience of healthcare?

Servant capitalism espouses the use of capital not only to grow profits, or to make gifts, but to *generate* business purpose around quality and inherent beauty. A new kind of investor might ask, what business is really needed? What business model is appropriate to that undertaking?

Whatever the project, the critical feature is that the funding serves the optimal expression of the enterprise – not the pocketbook of the investor. What if homebuilders weren't trying to maximize profits? What if beauty, rather than mass, were the yardstick of success? Might families have more serene time at home? What if childcare and education institutions removed fluorescent lighting from their buildings? What if a cadre of foodies designed a new system of nutritious fast-food, without worrying that they would lose their shirts getting it off the ground?

Millions of creative people don't dare launch a new business because the risk is high and rewards inadequate to attract investors. Worse, a whole range of good businesses never get off the ground

because entrepreneurs know, oh, no one would invest in this. I wonder what we're missing. Servant capitalism defines a new business sector that is not profit, not charity, but generation. Adequacy. This is a business plan for job creation and vocational fulfillment.

As concerned investors, we suffer from an impoverishment of financing options. Like lemmings we are moving with the force of habit towards a cliff of unsustainability. Yet I continue to believe that most of us desire neither deforestation nor complete business stagnation. Our hearts, and our spirits, long for work that does not come at the cost of our souls. It is time to build a roadway to different investment parameters.

STARTING WITH A SNOWBALL

At the moment, few formal options exist to commit one's investment dollar toward community benefit in a way that is more loan than charity. The philanthropic sector, with nearly \$400 billion in the U.S. alone, is uniquely positioned to create new pathways out of these unsustainable, or unhealthy business models.

A variety of worthwhile program-related investment initiatives have been launched by some of the larger foundations, such as Ford and Kellogg. Servant capitalism is consistent with just such a function: investment in profitable business that serves a foundation's social mission. This is wonderful. I hope it will grow. What I am asserting, however, is broader, and deeper. Servant capitalism is a commitment by investors that no business should make profit its exclusive goal. Success should be taken off of the hamster wheel of increased profits, and broadened to include metrics like community impact, work-life balance, and environmental benefit. Beyond that, my personal focus is on creative experiences that restore our connection to nature and tap our deeper psychological and spiritual wells without pressing any programmatic or dogmatic agenda.

Let me offer one possible scenario: an operating foundation could be established ("the pilot") with assets in the range of \$5-7MM. It would function as an incubator and promoter of artistic entrepreneurs who foster the same generous spirit in others. The corpus would be managed like any traditional endowment; but fully 15% of its capital, rather than the more typical 5% associated with pure grantmaking traditions, would be applied toward incubation services. That would be about \$750,000 per year.

The “investment pipeline,” such as it is, would be generated through what is known as a “snowball sample.” This is a common method in social psychological research: the objects of study are the very ones most likely to identify their kindred spirits. For example, the rustic teacher identified earlier has been contacted by two hurricane survivors who want to use the wreckage of Katrina to make and sell furniture. People want to creatively recover and rediscover their lives. Who will make that investment?

Slowly, and with clearly identified measures of success, these entrepreneurs could be assisted in expanding their reach. Moreover, their identification as part of a desirable, pioneering genre will create a knowledge base and esprit de corps. At a later phase, these very pioneers may generate a critical mass such that new hybrids of art and entrepreneurship are born, with possibilities for building design, healthcare, education, and media production projects. Unlike typical models of social entrepreneurship, these projects do have the capacity to either break even, or to profit. Thus, the culture is enriched, the capital is returned, and the investment can be recirculated for further benefits!

Will this work? Yes it will. If we invest in our dreams, they come true. If we don't, they don't. Right now, we need to take a bold step. Right now, we need investment vehicles that motivate differently. We need to bring down the illusory divide between wealth and virtue. Servant capitalism is a way to approach investment with a less Faustian sensibility.

It won't be for a lack of money or great ideas that we bequeath a world to our children that is broken and dirty, depleted. What may hold us back is the mere fear of the unknown. It's easy to forget that our investment parameters themselves were once bold new assertions, not dusty traditions. Venture capital, as a professional practice, is only fifty years old.

Robert Greenleaf, in *Servant Leadership*, posed a useful question: who, or what, is the enemy? “What holds back more rapid advancement to the better society that is reasonable and possible with available resources?” His reply was telling. “Not evil people,” he said. “Not stupid people, or lackluster or even apathetic people. The real enemy is fuzzy thinking on the part of good, intelligent, vital people, and their failure to lead, and to follow servants as leaders.”

We are all investors, creating a legacy with the commitment of our energy. What will be our legacy? An allocation 2% of our investment dollars, large or small, could be enough to seed a new investor solution. This is a bold experiment whose only failure could be the failure to begin.

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