



The Guru Is In

# Time to Wake Up Sleeping Capital



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When disruption threatens health and prosperity, whom does duty call, and to what action?

A recent *Boston Globe* article headlined “Americans are saving money – at exactly the wrong time.” Facing uncertainty, people have the instinct to slow down, to conserve. Prudence soon gives way to habituated excessive caution: those with capital are “waiting out the virus” as the *Globe* put it. Meanwhile, those same *Globe* subscribers whose drop in consumer spending has for months been de-stimulating the economy ask the federal government to spend money it doesn’t have to do what they are not doing.

What is true for people is also true for platforms. Faced with ecosystemic disruption and irreversible paradigm change, they ought to be bold, to experiment, to challenge decision sclerosis—in short, to take risks. Yet the bigger the platform, the smaller its cojones, as featured in a recent pre-COVID *Harvard Business Review* article, “Your Company Is Too Risk-Averse.” Many of the best capitalized and most successful companies—those precisely best situated to capitalize on their brains and their balance sheets—instead lose their strategic risk mojo:

Companies regularly forgo smart investments because of managers’ aversion to risk.

In our realm of affordable housing, what are the alpha dogs—the biggest and best housing nonprofits, and beyond them the housing finance agencies—doing? Whether private or public, such an entity is in effect a business (lender/investor or developer/owner), bolted to a charity, running a three-legged race toward a double-bottom line goal: organizational sustainability *in service* to maximal enduring impact. For such entities, status quo sustainability has a habit of turning into expanding overhead and an internal complacency consensus where process substitutes for performance.

For the *HBR* authors, who among them have devoted decades to the paradox of corporate cowardice, the solution lies in fiduciary duty to their stockholders:

[Risk aversion] is a hidden tax on the company. For one high-performing company we worked with, we [estimated its Risk Aversion Tax at] 32 percent. Let that sink in for a moment. This company could have improved its performance by nearly a third simply by eliminating its own, self-imposed RAT.

While a company's fiduciary duty does not demand sacrificing the platform on the altar of investor returns, neither should it prefer saving its own funds at the expense of its partners', yet for-profit managers often do just that:

Managers acknowledged that although their risk aversion was bad for their companies, it was good for their careers.

With for-profit actors, the monopole of success can be earnings, because the investors want a financial return. Those who invest in nonprofit mission entrepreneurial entities (via grants, Program-related investments or in kind) expect their return in impact. They got their founding capital not to build institutions for their own sake, but to solve social problems by taking risks that neither the market nor the government were willing to take. That is the unique value proposition of a mission entrepreneurial entity, a value proposition it must continuously demonstrate.

Grant recipients should have—in my opinion, they do have—a moral fiduciary duty to treat all their donations as equally deserving of current impact. Entities should be as creative in finding uses for their old money (equity that now resides on the balance sheet as retained earnings) as they are in creating business plans to capture new money.

In the midst of a disruption, that means designating a material chunk of the earned surplus as a disruptive impact fund, with external transparency, to be put to work addressing urgent and immediate challenges exposed by the virus.

It's serious money. When I did some fast mental arithmetic, the answer came back in the billions, money that could be liquid tomorrow *if* it were sufficiently motivated to do so.

Pro-poor, market-oriented economist Hernando De Soto dubbed money that the poor have tied up in informal property "dead capital" because it couldn't be financed or liquefied. In the same way, excess net worth embedded in large-platform mission entrepreneurial entities is, if not dead, comatose.

Capital is economic fertilizer, as Shakespeare's contemporary Francis Bacon noted four centuries ago: "Money is like muck, not good except it be spread. For otherwise a state may have a great stock, and yet starve."

Those who have used donations to tackle societal problems and produced social and sustainable success with it are due great honor for their past work. Yet old problems persist or resurface, and the future brings us new ones. The donors whose trust in these entities years and decades ago made their growth possible would want them to be as experimental and innovative today as they were in times past. That is their moral fiduciary duty.

Their sleeping capital needs to be woken up.

Now.