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## **PAVING THE ROAD TO HELL? CULTURAL INSTITUTIONS AND THE “NEW” PHILANTHROPY**

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ON FEBRUARY 6, 2002, *The Washington Post* reported:

Throughout the nine months that her idea for an exhibition on American achievement at the Smithsonian Institution had been debated, Catherine B. Reynolds was frustrated with the process. She was angry that her idea of honoring prominent individuals had become a lightning rod for criticism. She was annoyed that some historians thought the Catherine B. Reynolds Foundation’s promised \$38 million gift to the National Museum of American History didn’t mean she could help decide how the exhibit would be presented. She was befuddled by the slow and consensus-oriented process of putting together a museum show. Reynolds finally decided that the different perspectives could not be reconciled. At that point, Reynolds switched from philanthropist to business executive and decided her money wasn’t going to be well spent. Reynolds stunned those at the Smithsonian who had been working with her by announcing that she had changed her mind about her promised donation.<sup>1</sup>

Individual, corporate, and foundation funding has become a ubiquitous fact of life for many museums, libraries, orchestras, performing arts facilities, and other cultural organizations. Because annual operating budgets are not generally sufficient to support programming, these organizations have had to look elsewhere for money to

1. J. Trescott, “The Giver Who Gave Up: \$38 Million Donor Found Smithsonian Too Institutional,” *Washington Post*, 6 February 2002. Available online from <http://www.washingtonpost.com>.

finance many of their core activities.<sup>2</sup> For the most part, organizational personnel are cognizant, if not always approving, of this need and the public has become accustomed to the practice of corporate underwriting. Among several high-profile individual and corporate gifts to cultural arts organizations during the past five years, no gift in recent memory has attracted the acrimony and negative publicity of Catherine Reynolds' gift to the National Museum of American History, a division of the Smithsonian Institution. Nor has a gift demonstrated so well the fundamental misunderstandings that have arisen between cultural institutions and the philanthropic community brought about by the advent of the "new" philanthropy, otherwise known as venture philanthropy.

Catherine B. Reynolds personifies an emerging category of social entrepreneurs known as venture philanthropists who, like venture capitalists, want to see returns on their investments. But where a venture capitalist seeks a quicker financial return on investment and greater control of a company, for the venture philanthropist a profitable return consists of helping a nonprofit organization to increase its capacity to cure, educate, enlighten, entertain, or generate additional revenue that can in turn be used by the institution to further its mission and goals. Rather than providing assistance in solving isolated problems with one-time cash infusions, venture philanthropists seek to enable organizations to identify and implement sustainable solutions to incipient or recurring problems.

Personal fulfillment for a venture philanthropist comes as much from helping institutions realize their goals as it does from the public recognition that is frequently attached to such activities. The path tread by venture philanthropists and the institutions they support is strewn with good intentions. Successful navigation is as much a matter of strategic planning as it is diplomacy, and the results can be either a metaphorical heaven or hell for the participants involved.

2. J. Heilbrun and C. M. Gray, *The Economics of Art and Culture* (Cambridge: Cambridge University Press, 2001). In a chapter devoted to the economics of art museums, Heilbrun and Gray describe both the programmatic and support activities that a museum's budget must sustain. They provide detailed information on how these activities should be financed using a combination of paid admissions, other earned income, government support, and support in the form of grants and other subsidies from the nonprofit sector. The chapter emphasizes the fact that no single revenue stream can successfully support all of a museum's core and support activities.

The intention of this article is not to cast a cold eye on the National Museum of American History and the manner in which it and its parent organization, the Smithsonian Institution, dealt with Catherine Reynolds' gift. Such analysis would be highly speculative at best and, of necessity, based almost entirely on second- and third-hand journalistic accounts of the events that transpired while Mrs. Reynolds and the museum negotiated the terms of her gift. Speculation, though intriguing, has little practical usefulness.

Rather, the Catherine Reynolds episode provides a context in which to consider the issues raised by the arrival of venture philanthropists on the cultural scene, including donor involvement in programmatic activities, the so-called commercialization of cultural institutions, fundraising in the post-9/11 environment, the imminent intergenerational wealth transfer, and the impact that the new philanthropy is having on the way cultural organizations identify themselves, articulate their institutional missions, and gather support to fulfill them. Any references made with respect to Catherine Reynolds' gift to the Smithsonian Institution will be for the purpose of exploring those issues within a specific context and describing their larger impact on cultural organizations in general.

### The Reynolds Gift in a Nutshell

In 2001, businesswoman Catherine B. Reynolds, under the auspices of the Catherine B. Reynolds Foundation, promised a \$38 million gift to the Smithsonian's National Museum of American History (NMAH) to subsidize a permanent "Spirit of America" exhibition that would emphasize "the power of the individual to make a difference." When the gift was announced, Mrs. Reynolds suggested that the proposed 10,000-square-foot installation feature the life stories of Nobel laureates and Medal of Honor winners, as well as people who were successful in the areas of sports, business, and civil rights. Among those whom Mrs. Reynolds suggested for inclusion were Martha Stewart, Dorothy Hamill, Steven Spielberg, Oprah Winfrey, and Federal Express founder Frederick Smith. The contract governing the gift's administration entitled Reynolds to select 10 of the 15 members of the panel of experts who would identify achievers to be included in the exhibit. But this same contract reserved for the museum the right of veto power over the final content of the exhibition.<sup>3</sup>

3. Interview transcript, CBS News, *60 Minutes*, August 24, 2003.

Coming at a time when the Smithsonian Institution was facing a \$1.5 billion construction backlog and the launch of a capital fundraising campaign, it would have been reasonable to conclude that Mrs. Reynolds's donation was a leadership gift given as part of a long-range development strategy. Instead, the NMAH's curatorial staff, the scholarly community, and the general public denounced the gift as an inappropriate corporate intrusion into the nonprofit sector and indicated that acceptance of such a gift would be interpreted as evidence of serious mismanagement on the part of the museum. Smithsonian Secretary Lawrence Small was criticized publicly for having a poor fundraising strategy and for putting the museum and its collections up for sale. According to *The New York Times*:

There is no doubt that the Smithsonian needs money since it has a \$1 billion construction backlog and receives only 70 percent of its operating budget from Congress. But it does not need money that diverts the institution from its core missions or handcuffs its curatorial independence in any way. The Reynolds gift *would* have done both. Nor should the Smithsonian raise money, as Mr. Small has done, in ways that turn parts of the institution into corporate billboards. No one questions Mr. Small's energy, but given the compromises implicit in accepting the Reynolds gift there is reason to question his leadership.<sup>4</sup>

When she withdrew her gift, Catherine Reynolds commented, "This isn't about the Catherine B. Reynolds Foundation and the Smithsonian. It's a much bigger issue. It's about private money going to public institutions."<sup>5</sup> As reported in *The Washington Post*:

Reynolds' decision rattled Washington's arts institutions, which ardently woo private donors to underwrite their programs. Reynolds withdrew most of the Smithsonian gift when she felt it was "impossible" to realize her vision for "The Spirit of America" exhibition to honor outstanding achievers. The conflict apparently boiled down to Reynolds' basic philosophy behind the exhibition—"the power of the individual"—vs. that of museum scholars who held that movements and institutions are the true catalysts of history. "We were told over and over again that individuals don't make a difference," she said.<sup>6</sup>

4. Editorial Desk, "Smithsonian Pluses and Minuses," *New York Times*, 7 February 2002, A28.

5. R. Roberts, "Where Cash and Culture Go Hand in Hand," *Washington Post*, 7 February 2002, C01.

6. *Ibid.*

The *Post*'s account quotes Senator Ted Stevens (R-Alaska) who remarked, "Frankly, I'm appalled. If that quote is true—that individuals don't affect history—then they better start changing some individuals at the Smithsonian. What the hell—the Smithsonian was named after Smithson!"<sup>7</sup>

Overlooking the contractual provision that afforded NMAH explicit and exclusive control over the exhibition, press accounts fixated on the degree of control any donor should exercise at a museum, especially one receiving federal funding, and the perceived commercialization of a non-profit institution. When the curatorial staff of the NMAH learned of the provision granting Mrs. Reynolds an active role in the creation of the exhibition, more than 70 curators and 170 historians submitted a letter of protest to the museum's administration, condemning the proposed exhibition as a "hall of fame." The curators wrote: "Will the Smithsonian Institution actually allow private funders to rent space in a public museum for the expression of private interests and personal views?"<sup>8</sup> Commenting on the protest, Columbia University historian Eric Foner noted:

The curators, I think, were put off by what apparently was just an off-handed remark when Mrs. Reynolds was asked, "Well, who would you like to have in this exhibit?" And she mentioned Oprah Winfrey and a couple of people, and it sort of seemed like she was just talking about an exhibit of, you know, contemporary celebrities.<sup>9</sup>

The issue of donor control always merits careful consideration in an endeavor that is paid for by an outside source, and publicly funded cultural institutions are especially vulnerable to the charges of commercialization that may accompany projects underwritten by corporate donors. But the generic issues posed by corporate funding as enumerated in *The New York Times* editorial cited above are ones that should frame any discussion pertaining to the appropriateness of corporate support for a nonprofit cultural institution.<sup>10</sup> An offer of corporate assistance must be evaluated in terms of the institution's core mission, potential challenges to curatorial integrity, and the motivations for the corporation's offer of support.

7. Ibid.

8. D. Gilgoff, "A Donor Rebuffed," *U.S. News & World Report* 132, no. 5, 18 February 2002, 58.

9. Interview transcript, CBS News, *60 Minutes*, August 4, 2003.

10. "Smithsonian Pluses and Minuses," op. cit.

Cultural organizations must consider the ramification of accepting or refusing sponsorship from individual or corporate venture philanthropists. Unilateral rejection, although having the appeal of moral rectitude, may not be the wisest decision, but neither are decisions that accept a donor's money and his or her unfettered intrusion into the curatorial or scholarly activities that are at the heart of an organization's mission. Participation from venture philanthropists should be viewed as opportunities to form synergistic partnerships in which each party involved achieves the goal it desires by working together and learning from one another. Institutions that are secure in their organizational identities as well as their missions are the ones most likely to benefit from such arrangements.

### The Need for Organizational Identity

Because the substance of the discussions that took place between Mrs. Reynolds and Mr. Small remain unpublished, it is not known whether the institution approached the donor or vice versa, nor is it known if potential internal problems arising from donor control and corporate influence were actually discussed during negotiations. What becomes clear on closer inspection is that the spirit and intention behind the Reynolds gift as publicly reported were not as outlandish or inappropriate as press accounts made them appear, nor were they without precedent. But the allegations about donor control and commercialization of nonprofit intellectual institutions leveled against Mrs. Reynolds and Mr. Small underscore the need for any cultural organization involved in fundraising and public programming to have a clearly articulated institutional identity and mission statement from which sound curatorial and fundraising strategies can flow.

Viewed as both a populist and an elitist organization in the American imagination, the Smithsonian Institution has long suffered from a split personality. The dichotomization of its organizational identity may be explained by the museum's twin high-culture/popular-culture identities. This duality has resulted in collecting initiatives, exhibitions, and educational programs that appeal to both high and popular culture enthusiasts. When skillfully deployed, an appeal that is made to both ends of the cultural spectrum can result in an increase in attendance while still providing useful fundraising leverage. But such a dichotomy also may have the opposite, polarizing effect, resulting in curators, administrators, and donors maintaining separate priorities with respect to collection development, exhibitions, and fundraising.

As advocates of their collections, and ostensible proponents of high culture, the NMAH curatorial staff may have believed that their reputations as scholars, as well as their professionalism, was threatened by Mrs. Reynolds, who was perceived as a layperson with a comparatively “low-brow” exhibition proposal.<sup>11</sup> If such an attitude was held collectively, it may have interfered with the curatorial staff’s ability to embrace the arguments made in support of the style of entrepreneurial fundraising that Lawrence Small engaged in by negotiating for the Reynolds gift. Because Small was a former president of Fannie Mae, a former Citibank executive, and the first nonacademic to lead the Smithsonian, it was unlikely that he would have been aware of these intricate scholarly curatorial issues when developing his fundraising strategy.

In his essay, “Organizational Identity in Nonprofit Organizations: Strategic and Structural Implications,” Dennis R. Young asserts, “Organizational identity is what is central, distinctive, and enduring about an organization.”<sup>12</sup> He argues that clarity and consensus in defining an organization’s identity are essential elements for setting successful long-term strategies and making structural organizational choices. Resolution of conflicts pertaining to an institution’s identity is critically important if a nonprofit organization is to achieve its goals.

A report issued by a Blue Ribbon Commission appointed by the Smithsonian Institution’s Board of Regents following Mrs. Reynolds’s renunciation of her gift acknowledges the magnitude of the NMAH’s identity problems. The report attributes these problems to the museum’s history of shifting its focus over time as it moved from a nineteenth-century collecting omnivore to a twentieth-century tourist destination.<sup>13</sup>

11. V. Alexander, “Pictures at an Exhibition: Conflicting Pressures in Museums and the Display of Art,” in *The Politics of Culture: Policy Perspectives for Individuals, Institutions, and Communities* (New York: New Press, 1966). Alexander noted that museum curators are professional [art] historians, whose prestige rests on the scholarliness and quality of their work, including the exhibitions they mount. She noted that what curators believe about museum integrity comes from their background and professional training. Thus, it is not difficult to see how an “outsider” like Catherine Reynolds posed a threat to the NMAH curators.

12. D. R. Young, “Organizational Identity in Nonprofit Organizations: Strategic and Structural Implications” *Nonprofit Management & Leadership* 12, no. 2 (2001): 139.

13. “Report of the Blue Ribbon Commission on the National Museum of American History, presented to the Board of Regents of the Smithsonian Institution, the Secretary of the Smithsonian Institution, the Under Secretary for American Museums and National Programs, the Board of the National Museum of American History, and the Acting Director of the National Museum of American History” (March 2002).

Organizational identity is a distinct, yet holistic, notion that integrates, supports, and drives a number of operative concepts guiding the long-term direction and character of an organization.<sup>14</sup> The Smithsonian Institution is an organization whose mission has lent itself to reinterpretation with the passage of time and the growth of its divisions; the strong feelings maintained by Americans for the museum known affectionately as “the nation’s attic” have probably obscured its mission further. The manner in which this organization has grown does not lend itself naturally to the kind of unification described by Young. Yet, dissention such as that resulting from the Reynolds gift provides a strong argument as to why unified organizational identity must be attained. Integration comes only when the mission, vision, and goals of the organization have been clearly articulated, internalized, and accepted by all its members, which in turn presents constituents and supporters with a clear understanding of the organization’s identity. Published details of the Reynolds gift suggest that the NMAH, rather than responding as an integrated organization, instead highlighted the fact that it has within it numerous factions that subscribe to different visions for the same organization.

The Smithsonian Institution’s identity problems have their genesis in the ambiguous language used to describe James Smithson’s bequest to the United States and the manner in which the gift was administered. A member of the English aristocracy, Smithson never visited the United States during his lifetime, yet bequeathed a substantial portion of his estate to it.<sup>15</sup> In his will, he stated:

I then bequeath the whole of my property ... for the security and payment of which I mean stock to remain in this country, to the United States of America, to found at Washington, under the name of the Smithsonian Institution, an establishment for the increase and diffusion of knowledge among men...<sup>16</sup>

In 1835, President Andrew Jackson announced the Smithson bequest amidst a climate of mistrust brought about by the belief that philanthropic gestures were nothing more than vehicles used by the wealthy to gain power and fame. Congress spent 11 years debating what to do with the gift until 1846 when President James K. Polk established the

14. Young, “Organizational Identity in Nonprofit Organizations,” 140.

15. N. Burleigh, *The Stranger and the Statesman* (New York: HarperCollins, 2003).

16. *Ibid.*

Smithsonian Institution as a public organization to be directed by government officials but brought into existence from private funding.<sup>17</sup>

The legislation creating the Smithsonian Institution provided for a building to house a collection of scientific specimens that was to be surrounded by an art gallery, a chemistry laboratory, and a scientific library. The law stipulated that “all objects of art and of foreign and curious research, and all objects of natural history, plants, and geological and mineralogical specimens, belonging, or hereafter to belong, to the United States, should be kept at the Smithsonian for the purpose of research and study.”<sup>18</sup>

The Smithsonian’s collections and educational programs grew throughout the nineteenth and twentieth centuries in ways that mirrored the particular scientific interests of each of its directors. Until the 1920s and 1930s, the special interests of the museum’s curatorial staff were reflected to a far greater extent than what the museum’s donors might have envisioned. But when Charles Lang Freer donated his entire art collection in 1906, with a bequest to finance the construction of the Freer Art Gallery, the Smithsonian’s emphasis changed dramatically, and it took the first steps toward appealing to a broader constituency.<sup>19</sup>

The beginnings of automobile tourism in the 1920s brought Americans to Washington, D.C., to see, among other things, the treasures of the Smithsonian Institution. The public’s embrace of the Smithsonian coincided with another recent phenomenon, the professionalization of the role of museum curators who, as proponents of a museum elitist “high culture,” “were instrumental in institutionalizing a vision of museums that focused on conservation and scholarship, as opposed to such [‘low culture’] matters as education, public outreach, and exhibitions.”<sup>20</sup>

Sociologist Paul DiMaggio describes this transformation as a “limited but crucial transfer of authority from laymen to trained professional.”<sup>21</sup> Arguably, the institution’s dichotomized identity took root in the public’s imagination while this curatorial transformation took place. The Smithsonian was becoming recognized as a popular tourist destination where one could learn about America’s history and the achievements of

17. R. Grimm, “The Hand That Feeds,” *Foundation News & Commentary* (Jan./Feb., 2002): 56.

18. J. F. Watts, *The Smithsonian* (New York: Chelsea House, 1987).

19. *Ibid.*

20. Alexander, “Pictures at an Exhibition,” 183.

21. P. DiMaggio, “Cultural Entrepreneurship in Nineteenth-century Boston, Part II: The Classification and Framing of American Art,” *Media, Culture and Society* 4 (1982): 303–32.

its people, while simultaneously viewed as an elite organization devoted to scientific inquiry and the high culture associated with art museums.

### Philanthropic Realities of the Post-9/11 Economy

An established and accepted organizational identity is essential for any cultural institution attempting to raise funds in the post-9/11 environment. Resolving its identity problems will be vitally important for the Smithsonian Institution as it seeks private funding to augment its federal appropriations. As the annual federal support for the Smithsonian continues to decline, its dependence upon private sources to fund core activities will increase.

Citing data collected by the *Christian Science Monitor*, the *Philanthropy News Digest* reported that “a shaky economy and plunging stock values have caused organizations and individuals to scale back charitable donations across the country, prompting nonprofits to find new ways to raise funds to further their missions.”<sup>22</sup> This observation encapsulates the fallout experienced by the economic recession that began with the widespread Internet business failures in 2000, followed by the volatility of the capital markets, a sharp drop in corporate profits, and slower growth of personal income. The decline in charitable giving caused by these events was accelerated in the aftermath of the September 11th attacks that affected New York City and Washington, D.C., most profoundly. On the impact that the decline in donations had on cultural institutions, *The Chronicle of Higher Education* noted:

Efforts to raise money lagged in the immediate aftermath of September 11, as some institutions stopped fund-raising altogether or did not solicit from donors in the New York or Washington areas, sometimes for months. Then, late in the fiscal year, the stock market slide began, imperiling the relative wealth of donors even further.<sup>23</sup>

Support for all charitable causes, when adjusted for inflation, fell in 2001. Similarly, gifts from living individuals, which account for nearly three-fourths of all giving, declined by 1.7 percent. The report, *Giving USA*, estimated that corporate giving suffered the steepest drop.<sup>24</sup>

22. Foundation Center, Releases 2002, *Foundation Yearbook: Philanthropy NewsDigest*, retrieved June 25, 2002, from <http://fdncenter.org/newsletters>.

23. J. Van Der Werf, G. Blumensyck, and A. W. June, “Fallout from Wall Street Hits Colleges Hard,” *Chronicle of Higher Education* (Aug. 9, 2002):A27.

24. J. L. Pulley, “Charitable Giving to Education Suffered in 2001, Report Says,” *Chronicle of Higher Education* (July 5, 2002):A27.

Just as the recession has diminished the fortunes of private donors and philanthropic foundations, which in turn reduces their generosity, it has also affected the financial health and well-being of cultural institutions, whose endowments are no longer yielding the large incomes that they did in the past. This recent economic volatility may emerge as a continuing factor in twenty-first century fundraising. With widespread corporate retrenchment taking place throughout American industry, the near- and long-term economic forecasts do not bode well for either corporate and family philanthropic foundations or for individual investors who habitually contribute a percentage of their incomes to nonprofit organizations.

Compounding the decelerating pace of philanthropic giving is the geopolitical instability that unfolded following September 11th, which captured the attention of many philanthropic organizations. Many of these institutions are now focusing their diminished philanthropic resources on issues pertaining to nation-building and world health crises, assigning a lower priority to their funding of education and culture.<sup>25</sup>

For the fiscal year ending September 30, 2000, the NMAH had a total operating budget of \$31,397,000, of which 62 percent came from the Smithsonian's congressional appropriation and special one-time congressional allotments for major projects. Over the past 15 years, the federal portion of the NMAH's budget has consistently decreased and *all* signs point to a continued downward trend.<sup>26</sup>

Thirty-eight percent of the NMAH's operating budget comes from private sources, and the Smithsonian's dependence on such support continues to grow. Once a source of funds for temporary or special projects, private-sector support is increasingly becoming a critical and growing component of the museum's budget. Of necessity, corporate, foundation, and individual support is now having to be used for core museum functions as well as providing the majority of support for major exhibitions, public programs, and educational outreach activities.<sup>27</sup>

For the fiscal year ending September 30, 2001, the NMAH reported a total operating budget of \$45,304,000. Yet, unlike the previous year,

25. L. Browar, and S. Streit, "Mutually Assured Survival: Library Fund-raising Strategies in a Changing Economy," *Library Trends* (Nov. 2003): 74.

26. Smithsonian National Museum of American History, Behring Center, *Annual Report 2001* (2002).

27. *Ibid.*

this time only 51 percent of the total amount came from congressional appropriations (including base resources and several federal grants supporting major permanent exhibitions), which was a decrease of 11 percent from the year before when it was 62 percent. Comparing the same two fiscal year periods (FY2000 and FY2001) for the percentage of the operating budget that came from private sources (including trust gifts, grants, and endowments), FY 2001 was at 33 percent, a five percent decrease from the amount in FY 2000.<sup>28</sup>

The realignment of the philanthropic sector's priorities away from culture and toward the relief of human suffering should have alarmed the NMAH, if for no other reason than it is located in one of the two cities directly affected by the September 11 attacks. In Washington, as in New York City, the attention of many philanthropists and other individual and corporate donors was co-opted by the need to subsidize relief and recovery efforts in the wake of the terrorist attacks. Suddenly, the financial needs of art, culture, and education had to take a back seat to more immediate and pressing concerns.

Although the philanthropic trend away from traditional needs-based funding began before September 11, 2001, the events of that day and the subsequent changes in the giving patterns of major donors signaled a paradigm shift away from traditional needs-based fundraising initiatives toward strategies designed to identify and develop new sources of wealth. At a time when cultural philanthropists such as Alberto Vilar (a leading patron of classical music) were renegeing on their charitable pledges because of sudden reversals in their personal fortunes,<sup>29</sup> Catherine Reynolds' offer of a substantial gift containing within it the potential to leverage other, similar gifts represented a singular opportunity for recovery and growth. Such an opportunity should have been viewed as an offer of partnership with the corporate sector rather than as a hostile takeover.

### Baby Boomers and the Intergenerational Wealth Transfer

Published accounts of the events surrounding the Reynolds gift fail to indicate whether Secretary Small had a long-range fundraising strategy, and if so, whether it included the intention to leverage sources of new wealth (such as the self-made fortune of Mrs. Reynolds) into increased earned income for NMAH. Certain aspects of the Reynolds gift indicate

28. Ibid.

29. V. Dobnik, "Is the Party Over for Alberto Vilar, the World's Biggest Music Philanthropist?" *Associated Press*, 28 September 2002.

that Small was mindful of the capacity-building potential carried by such a gift (i.e., that one such gift tends to attract others of similar size and growth potential). Nevertheless, an understanding of the relevant facts pertaining to the new sources of money (either earned or inherited) that are funding philanthropic initiatives elsewhere will illustrate the potential that was lost when Mrs. Reynolds rescinded her gift.

- The baby-boom generation will inherit a minimum of \$41 trillion over the next 55 years, which includes approximately \$6 trillion for philanthropy. This inheritance will provide an unprecedented opportunity for resources to flow into philanthropic and nonprofit ventures.
- New wealth creators, many of whom are members of the baby-boom generation, are earning fortunes at younger ages than the previous generation, and many of them are beginning earlier in life to devote time and resources to philanthropy.
- A critical mass of readiness and momentum for new kinds of social investing is emerging and can be catalyzed by the nonprofit sector for greater impact and effectiveness.
- Experienced philanthropists are seeking opportunities to partner with younger philanthropists to create bi-directional mentoring that leads to deeper appreciation of lessons learned from the past, as well as to new ideas and opportunities.<sup>30</sup>

Sadly, none of the reportage documenting the history of the Reynolds gift displayed an understanding of the intergenerational wealth transfer that is about to occur, the creation of new wealth that is taking place right now, or their combined importance to the long-term stability of cultural organizations. An ability to cultivate relationships with these new sources of wealth will be one of the keys to future solvency for the cultural institutions astute enough to realize that traditional needs-based philanthropy alone will no longer sustain these organizations. Traditional philanthropy will have to be supplemented by innovative techniques that capitalize on the spirit and energy of the new wealth creators.

30. T. K. Reis and S. J. Clohesy, "Unleashing New Resources and Entrepreneurship for the Common Good: A Philanthropic Renaissance," *New Directions for Philanthropic Fundraising* 32 (2001).

Critics of the Reynolds gift alleged that it was not representative of “true philanthropy.” The museum’s former general counsel, Marie C. Malaro, noted:

Judging from recent news reports, I can only conclude that those in control know little about prudent management of a nonprofit organization. True philanthropy is giving without attaching strings that inhibit the independent judgment of the nonprofit; the sector cannot provide its distinctive services if true philanthropy dies or becomes distorted.<sup>31</sup>

Malaro’s remarks draw strong conclusions that fail to acknowledge the changing nature of philanthropy. More disturbingly, Malaro expresses opinions that may be widely held in the museum community, suggesting that such institutions may not be ready to acknowledge and capitalize on these changes. Robert Payton, founder of the Center on Philanthropy at Indiana University, defines *true philanthropy* as “voluntary action for the public good.”<sup>32</sup> Embraced by the philanthropic community, this definition does not foreclose on donor recognition through hands-on involvement in initiatives, nor does it insist upon such involvement. In comparison, Malaro’s rigid definition of *true philanthropy* seems at best restrictive and at worst self-defeating when considered in the new philanthropic environment’s emphasis on increased levels of donor participation. Unilaterally ruling out any donor participation from museum initiatives will only perpetuate the continuation of operational models and fundraising patterns established in the late nineteenth and early twentieth century. Such outdated models will inhibit institutional ability to grow and change in ways consistent with the philanthropic sector and its funding priorities.

Of the philanthropic renaissance taking place, Thomas K. Reis and Stephanie J. Clohesy have written:

The extraordinary mass of financial capital produced by the economy in the late twentieth-century, along with the creative force of a new generation of innovators, has formed a wellspring of new ideas for philanthropy. With an entrepreneurial focus on the common good and a desire for partnerships among the commercial, public, and nonprofit sectors, emerging social innovators

31. Outlook, *Washington Post*, 10 February 2002, B02.

32. From remarks to the student body of the Center on Philanthropy at Indiana University-Purdue University, Indianapolis, 2001.

are pushing philanthropy to a tipping point of change.

New wealth creators and new social innovators are bringing to philanthropy market-based models that emphasize equity and ownership, measurable results, fiscal sustainability, and capitalization to scale. Such market models, defined through language like *venture philanthropy* and *social entrepreneurship*, are expanding the boundaries of traditional philanthropy. Some proponents of venture or market-based philanthropy believe that the new models should displace and replace much of traditional philanthropy. Yet it seems more reasonable to value the new models as enhancers of current organized philanthropy, adding more design options of philanthropic approaches to the spectrum of societal challenges and opportunities.<sup>33</sup>

### Vehicles of Wealth Creation

Venture philanthropy applies the practices of venture capital to charitable giving. New philanthropists put their money into projects promising the highest social return, offer strategic guidance to make it happen, and require accountability for measured results. It should be viewed as a vehicle for wealth creation enabling cultural organizations to leverage monetary gifts in ways that meet current needs and expand the capacity of fundraising that will generate increased levels of income to meet future needs. New philanthropists such as Catherine Reynolds do not simply want to earmark money for benevolent purposes. As business executives, they are professionally focused on performance and believe that equipping and investing in institutions will enable these institutions to go out and create their own wealth.<sup>34</sup>

For a museum, such wealth creation could take the form of other major gifts, grants, or earned income opportunities that raise the institutional profile and identify it as a culturally significant and financially astute organization worth considering as an investment. The process of becoming such an organization represents a significant educational opportunity for any cultural arts institution. But it also calls for a shift away from traditional needs-based fundraising toward projects that will enable an institution to build the capacity that generates increased earned income from other sources. Finally, an organization willing to accept support from a venture philanthropist must be prepared to accept that donor, not as a “silent” part-

33. Reis and Clohesy, *op. cit.*

34. D. Goss, “Giving to Enhance the Getting: How Charity Can Make Us Rich,” *Financial Observer* (Sept. 8, 2003): 13.

ner but, rather, as an active participant contributing ideas as well as working capital to the project, and who will expect the organization in which he or she has invested to be held accountable for producing results.

### Corporate Support or Commercialization?

The charge that the Smithsonian Institution should not be for sale might never have been leveled if Mrs. Reynolds, an entrepreneur, had not made her participation in shaping the exhibit's contents a contractual condition of her gift. But given other recent gifts, it is disingenuous to cite the Reynolds gift as a lone example of corporate underwriting at the Smithsonian Institution. Furthermore, recognition of a corporate gift through a naming opportunity does not constitute product endorsement.

In an interview for the CBS program *60 Minutes*, consumer advocate Ralph Nader noted that he does not understand the furor. He remarked, "The Smithsonian takes a lot of money from big corporations who have certain strings attached to their exhibitions and nothing is made of it." Making a distinction between Catherine Reynolds and corporate America, Nader commented, "There has been more criticism of Catherine Reynolds than all of these corporate contributors and donors and concessionaires that are commercializing the Smithsonian as never before."<sup>35</sup>

Interviewer Mike Wallace interjected:

When I go to the Smithsonian, there are corporate sponsors all over the museum. The flag [restoration project] is sponsored by Ralph Lauren. The IMAX Theater was just renamed the Lockheed Martin Theater. The Insect Zoo is named after the founder of Orkin Pest Control.<sup>36</sup>

Economists Heilbrun and Gray observe that some corporate managers may believe that it is morally important for their firms to *be* good corporate citizens, but that it is even more important that they be *seen* in that light. They write:

corporations are attracted to forms of giving that are visible or even attention grabbing. That explains, for example, the prominence of corporate support for public television programming. "Special events" to which the company name can be attached,

35. *60 Minutes*, op cit.

36. Ibid.

such as a blockbuster art exhibition or a series of summer concerts in the park, also attract generous corporate support. Hence, the large share of corporate donations going, respectively, to museums and to musical performances.<sup>37</sup>

Noting that corporations claim that their single most important criterion in making gifts is “impact on the local community,” Heilbrun and Gray caution against applying too much cynicism in the interpretation of corporate motives, which are often to make the local community a better place to live in by strengthening its artistic or other cultural institutions. After surveying national corporate funding activities, the economists acknowledge that:

Some observers worry that corporate support may eventually corrupt culture by bending artistic production too much in the direction of whatever it is that corporations are willing to pay for and away from the more provocative and controversial forms of art that they admittedly try to avoid. It is well to be on guard against that threat, but the danger seems insufficient to justify shunning corporate support.<sup>38</sup>

Whether Catherine Reynolds’s motives for offering corporate support to NMAH were grounded in a wish to be a good corporate citizen or merely to be perceived as one is irrelevant. Lost, along with her money, was the

37. Heilbrun and Gray, 265.

38. *Ibid.*

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chance for a creative partnership. As Lawrence Small remarked, “Good ideas are the antidote to insularity. If we look only inward for inspiration how can we accurately reflect our society, its history, and our times?”<sup>39</sup>

### Turning Problems into Opportunities

In her essay, “Pictures at an Exhibition: Conflicting Pressures in Museums and the Display of Art,” Victoria Alexander identifies from a curatorial perspective some of the factors affecting gifts such as the one offered by Reynolds. She suggests ways in which the threat to handcuff curatorial independence could have been turned into an opportunity instead.

Alexander acknowledges that new funding could create problems for museum personnel with the arrival of donor imperatives and preconditions on gifts. But she suggests the implementation of “buffering” and/or “resource shifting” as antidotes to these situations.

She defines *buffering* as the “process by which organizations protect their most crucial functions by allowing changes in more peripheral areas.” *Resource shifting* is defined as the means “by which organizations use discretionary funds to keep the internal balance of activities as closely aligned to the ideal balance as possible.”<sup>40</sup>

Quoting Diana Duncan of the Smithsonian, Alexander reports:

Our more scholarly projects do tend to get funded internally. If something is not a sexy project the inside tracks are much more important. But lack of corporate sponsorship doesn’t mean we don’t do those things.<sup>41</sup>

Duncan’s remarks suggest that resource shifting is not unprecedented at the Smithsonian, nor is accepting corporate sponsorship for less scholarly exhibitions.

Whatever motives the NMAH’s curators may have had for protesting of the Reynolds gift, they failed to seize an opportunity to educate Mrs. Reynolds (and by extension, other venture philanthropists) about curatorial practices and methodologies and forfeited a chance to leverage an important gift to the museum’s benefit. In the end, however, their gam-

39. Ibid.

40. Alexander, “Pictures at an Exhibition,” 185.

41. Ibid.

bit may have been a zero-sum game. Recognizing the changing nature of philanthropy, *U.S. News & World Report* observed:

With \$1.5 billion in overdue repairs and renovations in its 16 museums and a former Citibank executive at the helm, the Smithsonian's run-ins with venture philanthropy are unlikely to end anytime soon.<sup>42</sup>

### Lost and Found

In the months following Mrs. Reynolds's withdrawal of support, two documents were generated that acknowledged the changes taking place in the philanthropic sector and the necessity for cultural organizations to respond to them in positive ways. The American Association of Museums (AAM) issued *Guidelines for Museums on Developing and Managing Individual Donor Support*. The document's introduction notes:

As museums become more advanced and sophisticated in their management, and individual donors seek new ways to give to museums and play a role in their activities, the relationship between the two groups has become more complex. In light of today's often intricate museum-donor relationships, the U.S. museum community and the American Association of Museums (AAM) have established ongoing discussions about ethical practice in this area. Recognizing that a museum's credibility and success depends on how well it fulfills its public trust, AAM offers these guidelines as a tool for developing and managing individual donor support. Museums serve their publics better when they offer individual donors a variety of methods for supporting mission-related activities.<sup>43</sup>

As a source document, the AAM's guidelines are clear and comprehensive. With respect to the "Delineation of Process and Fulfillment of Obligations," the guidelines state unambiguously the strategy that should be employed when individual or corporate philanthropists offer support:

A museum should outline the process used to make decisions about individual donor support. Such decisions include but are not limited to solicitation, gift acceptance, fulfillment, recognition, and public inquiry.<sup>44</sup>

42. Gilgoff, "A Donor Rebuffed," 58.

43. American Association of Museums Guidelines for Museums on Developing and Managing Individual Donor Support, accessed from [http://www.aam-us.org/resources/ethics\\_guidelines/indivsupport.cfm](http://www.aam-us.org/resources/ethics_guidelines/indivsupport.cfm).

44. Ibid.

*The Report of the Blue Ribbon Commission on the National Museum of American History* admits that there are daunting organizational problems but also expresses confidence in the solutions they propose, assuming that the organization is willing to undergo a transformation. With regard to private donations, it acknowledges that a Gordian knot exists to be untied:

Attending to one school of thought can risk losing the confidence of others. Using private donations to relieve funding constraints can risk losing a special bond of public trust. Gaining long-term funding commitments can decrease future flexibility. Reducing the “attic effect” can decrease display space. And so on. The point here is obvious—but no less serious for being so.<sup>45</sup>

With this language the commission endeavored to silence the museum’s critics while acknowledging the difficulties encountered by the curatorial staff when private donors make active programmatic involvement a condition of their gifts.

If the NMAH can implement the report’s recommendations in ways that will preserve the museum’s intellectual integrity, take advantage of a democratic rather than an autocratic approach to exhibition curatorship, and extend the museum’s fundraising capability through the implementation of entrepreneurial strategies, the NMAH will have taken the first steps toward its transformation. Resolving its bimorphic identity is as important as its ability to become a knowledge-based organization that communicates openly and seeks to educate its staff and administration as well as its supporters. If this can be accomplished, the unfortunate events surrounding the Reynolds gift have served a purpose. In the long run, the organization will have found something ultimately more valuable than anything it lost.

### Always Look the Gift Horse in the Mouth

University of Chicago Professor of History Neil Harris, a member of the Smithsonian’s Blue Ribbon Commission, said in the wake of Catherine Reynolds’ renunciation: “It’s always disappointing to see a gift withdrawn. This kind of event will produce rethinking of the nature of public–private relationships with the Smithsonian.”<sup>46</sup> In fact, this kind of event should produce widespread rethinking of the relationships that

45. “Report of the Blue Ribbon Commission on the National Museum of American History.”

46. Trescott, *op. cit.*

are cultivated between cultural institutions and private and/or corporate donors throughout the nonprofit sector.

As noted earlier, in the contemporary philanthropic climate, not many donors are willing to invest large sums of money in cultural organizations. Some, such as the aforementioned Alberto Vilar, fail to complete their pledges of support. The business pages of major newspapers regularly feature reports of corporate officers suddenly without the means to honor their philanthropic commitments. The most recent example of this situation is Hollinger International CEO Conrad M. Black, whose failure to fulfill a \$100,000 pledge to the New York Public Library was on the front page of *The New York Times* business section.<sup>47</sup> Such reports should make fundraising officers cautious about accepting pledges from potential donors too quickly and ever more reliant upon thorough donor prospect research.

But neither should such events prevent cultural arts administrators from giving serious consideration to exponents of the new wealth class when they step forward with offers of financial assistance. These occasions should be considered as opportunities to initiate a dialogue between would-be donors and institutional staff about an organization's mission and practices as well as the benefits (monetary and otherwise) of forming partnerships with venture philanthropists. Donors who can demonstrate their integrity and solvency along with their advocacy and good intentions will help pave the way toward a more secure future for the cultural organizations that are prepared to embrace the entrepreneurial spirit of the "new" philanthropy.

47. G. Fabrikant, "Media Baron Has Not Met Library Pledge," *New York Times*, 17 January 2004, C1.