PHILANTHROPY AND SOCIAL INVESTMENT: A REVIEW OF THE LITERATURE

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Philanthropy

Most of what we know about charitable giving is based on data from the USA. There are some datasets for countries in Europe, but very little is known about philanthropy—defined broadly to include charitable donations and volunteerism at all levels—in the rest of the world. Data on giving in the USA comes from two main sources: household surveys and tax returns, and both have been used to examine a range of questions about charitable giving, as reviewed below.

Overall, giving in the U.S. has been on a steady rise for the past 30 years, but has stayed relatively constant as a share of income, between 1.5 to 2 percent. Individual donations are by far the largest source of charitable donations, making up almost three quarters (73 percent) of all donations in 2011, followed by charitable foundations (14 percent), bequests (8 percent) and corporations (5 percent). Taken together, household giving makes up (Giving USA annual report 2011; also see Greene and McClelland 2001 for historical trends). For a comparative view of the nonprofit sector across countries, see publications from the Comparative Nonprofit Sector Project at John Hopkins University, in particular The State of Global Civil Society and Volunteering (Salamon et al, 2013).

The Economics of Philanthropy

Economic Models of Altruism and Philanthropy

The point of departure for economic models of altruism and philanthropy is the assumption that individuals are self-interested. Becker (1974) is credited with the seminal contribution in the economic literature on altruistic giving to charity.

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1 A widely cited source is the Independent Sector’s Giving and Volunteering in the United States (2001). Other data sources in the U.S. include the annual report on the U.S. nonprofit sector published by Giving USA, data from the National Center on Charitable Statistics (part of the Urban Institute), and the Center of Philanthropy Panel Study (COPPS data), jointly managed by the Lilly Family School of Philanthropy at IUPUI and the University of Michigan Institute for Social Research Panel Study on Income Dynamics (PSID).
Neoclassical economic models conceptualize charitable giving as a private gift to a pure public good. This includes, for example, contributions to a good from which the giver will benefit (donation to research on a specific disease, or contributions to the opera), “enlightened self-interest”, according to which a person may contribute to a public good in case they may consume it at some point, or a charitable bequest. In all of these cases, an individual maximizes a utility function that includes benefits to others or to society in general. However these models are not appropriate for public goods for which donors do not experience the impact of their gift. In that case, economists have posited the ‘warm glow’ utility from giving, a private benefit that results from the act of giving, regardless of whether the donor benefits directly from the gift (Andreoni 1988; 1989; 1990; 2006).

The simplest economic model of charitable giving is one of individuals contributing to a pure public good. Individuals choose a level of consumption $x$, and a contribution to the public good $g$ to maximize their utility. The model is solved by assuming a Nash equilibrium, in which all individuals consume different levels of the private good, according to preferences and income, and the pure public good $G$, made up of all individual contributions $g$. The result is that private giving will not be Pareto efficient, justifying the involvement of the public sector in the provision of public goods (Becker 1974).

Although the simplest model outlined above justifies the public provision of public goods, much of the economic literature on charitable giving is concerned with the question of ‘crowding out:’ whether and how much government provision of public goods, financed through taxes, crowds out individual donations. Crowding out models assume that individuals are indifferent about the source of funding for the public good, which is not consistent with empirical experimental and survey data. In contrast, the ‘warm glow’ model recognizes and incorporates individual’s preferences to contribute directly, since they receive a private benefit called ‘warm glow’. (Andreoni 1990; 2006).

Similar to the idea of ‘warm glow’ as a private benefit to giving, Rose-Ackerman (1996) posits that individuals give in order to receive, as a private good, social capital in
return. Other models of altruistic giving are based on the life-cycle hypothesis (e.g., Barro 1974; Becker and Barro 1988). In all cases, economic theories of philanthropic giving are based on the assumption that something is received in return, be it a private good in the form of “warm glow”, social capital, and/or a tax deduction. Andreoni, who has written extensively on the topic, concedes that perhaps the assumption of self-interested behavior is not well suited to explain philanthropy. Human beings are moral beings, and moral codes of conduct may affect our choices in ways that cannot be captured by “neoclassical models of well-behaved preferences and quasi-concave utility functions” (Andreoni 2006: 1205).

Crowding Out: Empirical Evidence

Economists have examined this question empirically using panel data on funding sources from nonprofit organizations. Nonprofits jointly raise public (government) funds and private (individual donations, private and corporate foundations) funds. The question is whether, and to what extent, government funding ‘displaces’ these other funding sources. If nonprofits behave as profit maximizers, they will raise funds until the marginal cost of fundraising equals the marginal benefit. However, if instead they have revenue goals and stop fundraising once these goals are reached, nonprofits would behave like ‘satisficers’, in which case marginal revenues may exceed marginal costs of fundraising (Andreoni 2006).

There is mixed evidence on the question of profit maximization. Using panel data on US nonprofits from 1982-1994, Okten and Weisbrod (2000) do not find evidence to support nonprofits behaving as ‘maximizers.’ They find significant differences across industries within the nonprofit sector, with some nonprofit industries falling short of profit maximization, while others engaging in excessive fundraising—with marginal costs of fundraising exceeding marginal returns. They do not find evidence of

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2 This review’s section on taxes and giving below will examine this relationship in detail.
3 For a different perspective on altruism and philanthropy within economics, see Sugden (1984), and the critique by Sen (1977).
crowding out of private donations. Rather, they find a positive relationship of
government funding and private donations for most nonprofit industries.

do not find evidence of crowding out, but do find evidence consistent with UK charities
acting as net revenue maximizers, with differences by industry. Specifically, social
welfare charities were found to fall short of the net revenue maximization, whereas
health and overseas charities were found to maximize net revenue, and religious
charities maximized total revenues.

More recent work by Andreoni and Payne (2003; 2011) uses panel data from US
nonprofits’ tax filings to examine the crowding out question, as well as differences
across types of nonprofits. The 2003 study uses a 14-year panel dataset of 233 arts
organizations, and 534 social services organizations. The two types of organizations rely
on different sources of funding: while arts organizations rely mostly on fundraising,
social service organizations rely heavily on government funding. In contrast to the
previous studies reviewed, they find that government grants decrease fundraising by
about 52 percent for arts organizations, and 32 percent for social service organizations
(Andreoni and Payne 2003). The question is whether this truly reflects ‘crowding out’ of
private donations, or whether it is the result of organizations reducing their fundraising
efforts once they obtain public funding. The 2011 study addresses this question directly,
also using a panel dataset of U.S. nonprofits (1985-2002), and finds that crowding out is
significant (estimated at 75 percent), and can be attributed primarily to reduced
fundraising, called ‘fundraising crowd out’ (Andreoni and Payne 2011). Similarly, using
data from public radio stations in the US, Straub (2003) finds that the reductions in
giving after a public grant can be attributed almost entirely to reduced fundraising, and
not classic crowd out.
PHILANTHROPY: WHO GIVES, AND WHY?

The Role of Charitable Organizations in Giving

Most studies of why individuals engage in charitable giving focus on the motivations or determinants at the individual level. However, as the previous section illustrates, nonprofit organizations’ actions play an active role in eliciting giving. This section briefly examines the role of recipient organizations in raising funds, including their responses to changes in public policy.

Nonprofit or charitable organizations engage in two major types of fundraising: capital campaigns for new charities or new major initiatives, and continuing campaigns for existing organizations and programs. Following are some stylized facts of capital campaigns, which economists have attempted to model:

- Capital campaigns have three phases: (i) research, to identify potential large donors, (ii) silent phase, to secure large donations before the start of the public campaign, and (iii) the general campaign, which consists mostly of small donations.
- Capital campaigns announce gifts, especially the first gift or group of gifts.
- Wealthy ‘leadership givers’ give first, and make extraordinary gifts relative to the total amount being raised.
- Some gifts are meant as “seed grants” that spur others to give.

These features can be explained by the nature of a capital campaign, which has large fixed costs of capitalization. Since potential donors have incomplete information on the quality of the new project, the large, well publicized, initial donations serve two purposes: to overcome the minimum needed to ensure the project will take place, and as a signal to potential donors. (Andreoni 2006 has a series of formal models to explain these stylized facts, see pp. 1254-1256).

Most established nonprofits are engaged primarily in continuing campaigns to pay for the organization’s operating expenses. Stylized facts around continuing campaigns:

- The power of the ‘ask’. Both charities and donors report that the most effective fundraising tool is to directly ask someone to donate.
• Donors are publicly recognized, and are often reported in broad categories rather than exact amounts. Many organizations also give small tokens of recognition, often branded objects, for smaller donations.

• Charity raffles and auctions often generate surpluses that far exceed what these events would get in the absence of a charitable beneficiary.

In an economic model by Andreoni and Payne (2003), solicitation essentially reduces the transaction costs of giving. These costs can include information about the organization or even information about how to donate. Also, as described previously, the authors find that after receiving a government grant, charities reduce solicitation, and the solicitation that does take place is less productive. So donors do, in fact, give less, but charities also ask for less.

In terms of donor recognition, there have been a number of experiments that suggest recognition can elicit donations as a way to show pride, avoid shame, or bow to social pressure (Andreoni 2006). Glazer and Konrad (1996) model donations as a way of signaling wealth to others. Finally, Harbaugh (1998a) examines donation categories, which are a common way to structure charitable contributions, and shows how categories can be used to increase donations. However, another paper by Harbaugh (1998b) examined contributions to a law school’s fund drive, and found that gifts were made almost exclusively at the lower end of each category.

**Philanthropy and Altruism**

In the social psychology literature, charitable giving is studied as an example of prosocial behavior, or actions that help others. Researchers distinguish altruism from prosocial behavior: helping behaviors may or may not be motivated by altruism, which are actions taken with the intention to benefit others. Prosocial or helping behavior includes philanthropy as well as a wide range of actions, from assisting a stranger in an emergency to bone marrow donation.

How do neoclassical economic models of philanthropy reconcile with the social science on altruism? A broad review of the literature on altruism in social science--
including psychology, sociology, economics, political science and evolutionary biology--documents a shift away from the idea that all altruistic behavior ultimately reflects egoistic motives, to the view that ‘true altruism’, described as acting with the goal of benefiting another, exists and is part of human nature (Piliavin and Charng, 1990).4

As stated previously, scholars distinguish between philanthropy--conceptualized as a prosocial act or behavior--from altruism, which speaks to intention or motivation. Khalil (2004) reviews so-called ‘rationalistic’ theories of altruism (egoistic, egocentric, altercentric perspectives), and ‘normative’ theories (Kantian, socialization, ‘warm glow’), and also argues that altruism should not be confused with philanthropy:

"[Philanthropy is] rather a mediated way of enhancing the productive capacity of, what is coined here, the “expanded self” of the parent or philanthropist. An agent has an “expanded self” when he tries to extend his own capacity through investment in the capacity of cared-about or loved others. This extension is possible if one defines his capacity as to include the capacity of the cared-about others.” (Khalil 2004: XX). This points to the many other reasons people may engage in charitable contributions of time and/or money, in addition to altruistic motives. The following section reviews the literature on individual determinants of giving.

**Individual Determinants of Giving**

The question of why people make charitable contributions represents, in itself, a large body of literature across a range of disciplines. Articles on the determinants of philanthropy have been published in social psychology, evolutionary psychology, sociology, political science, anthropology, economics, management, marketing, biology, and neuroscience. The main question addressed in this literature is what motivates people to donate money to charitable organizations.

In a broad review of the social science literature on altruism, Piliavin and Charng’s (1990) include a list of motivations (besides altruism) for prosocial behavior

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4 In fact, evolutionary biologists assert that humans are remarkably altruistic relative to other primates. See e.g., Silk and House, 2011.
that includes **social desirability, recognition, expectations of respect from others, and identification with certain groups or communities**, among others. In his 2006 book *Who Really Cares?*, Arthur Brooks argues that *religious faith* is one the primary motivators for people to give. Charitable giving is correlated with religious faith in the U.S., as well as in Europe (see e.g., data in Bishop and Green 2008, p. 32). In Theresa Lloyd’s 2004 study of British millionaires, *Why Rich People Give*, she discusses how Jewish philanthropists, as well as donors from other “refugee groups,” identify giving back to a society that gave refuge to their families as an important motivator.

For certain diaspora communities (e.g., Jewish, South Asian), scholars have examined the patterns and types of what is called “**diaspora giving,**” which can include charitable donations to the country of origin, as well as the local community, either diaspora related or not. At the local level, diaspora giving often funds services to members of their own community, as well as services open to all in order to create goodwill. Among scholars of ‘diaspora giving’, Jewish diaspora giving is characterized as the “gold standard” (Bishop and Green 2008: 34).

In their book about wealthy, entrepreneurial philanthropists, Bishop and Green (1998) hypothesize about other possible motivators for those at the high end of the income distribution, including **concerns about the impact of dynastic wealth on their children**, ‘alpha’ personalities that seek recognition from their peers, *ego* (Ostrower 1997) or simply **because it makes you happy** (see e.g., a study by Argyle (1995) in which respondents identify charity and volunteering as bringing more joy than sports or music.)

A recent systematic review of the empirical literature on the motivations for charitable giving by Bekkers and Wiepking (2011) examines the motivations for charitable giving by individuals or households to nonprofit organizations. They identify eight mechanisms as the key drivers of giving: (1) awareness of need, (2) solicitation, (3) costs and benefits, (4) altruism, (5) reputation, (6) psychological benefits, (7) values, and

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5 Other related reviews include Sargeant and Woodliffe (2007); Vesterlund (2006); Meier (2007); Sargeant, (1999); Havens, O’Herlihy and Schervish, 2006.
(8) efficacy. These categories are based on differences across four dimensions: (i) the physical form of the mechanism: tangible or intangible; (ii) where the mechanism takes place: within, outside or between people; (iii) the actors involved: donors, beneficiaries, organizations, or some combination of these; and (iv) the intended targets: donors and/or beneficiaries. For example, according to this categorization, psychological benefits are intangible, occur within people, and donors are both the actors and the targets. For altruism, donors are the actors and beneficiaries are the targets. The categories are not necessarily exclusive, that is, solicitation is categorized as something that can be tangible or intangible, occurs between people, both beneficiaries and organizations are actors, and donors are targets. Following Bekkers and Wiepking’s categories, each mechanism is explained below.\(^6\)

- **Awareness of need.** The relationship between awareness of need and giving has been examined primarily in social psychology, through field experiments and survey data dating back to the 1960s. In addition to charitable donations, psychologists have documented the effect of need on a range of helping behaviors, including assistance to a stranger, blood donation, and organ donation. Overall, psychologists’ field experiments have found that the degree of need for help is related to the probability that help will be given—and the key determinant is the potential giver’s subjective perception of need, rather than some objectively determined need. Survey studies also show that donors and volunteers perceive higher needs for their donations of money or time than those who do not donate or volunteer. Need awareness precedes cost and benefit calculations, and can be shaped in important ways by organizations and beneficiaries, who seek help and/or communicate needs to potential donors.

Awareness of need increases when people know potential beneficiaries of an organization, and in focus groups, donors cite knowledge of a potential beneficiary as a motive for charitable giving (see Polonsky, Shelly and Voola, 2002; Pitts and Skelly

\(^6\) For an overview of how all mechanisms are categorized, see Table 1 in Bekkers and Wiepking (2011: 928).

\(^7\) The remainder of this section closely follows the structure in Bekkers and Wiepking (2011).
1984; Bennett, 2003 for specific examples). For example, people who have relatives suffering from specific illnesses are more likely to give to charities fighting those illnesses (Bekkers, 2008; Burgoyne, Young & Walker 2005), though apparently they may not give more on average. In fact, one experimental study found that solicitation which includes making potential donors aware of the needs of beneficiaries increases the likelihood of donations, but yields lower donations among those contributing (as cited here, also see Dolinski et al, 2005). In addition to organizations and beneficiaries, media coverage also plays an important role in need awareness, and the extent of coverage of say, natural disasters, is negatively related to demographic and psychological distance between potential donors and beneficiaries (as cited here, see also Adams, 1986; Simon, 1997).

Since the key here seems to be the potential donor’s subjective perception of need, perhaps it is not surprising that the literature finds mixed results when examining the relationship between charitable contributions and poverty or income inequality in a given time period or region. While earlier studies found a positive correlation between donations and poverty (both over time and across space), more recent studies point to a more nuanced relationship. For example, Bielefeld et al (2005) found a positive relationship between levels of income inequality and donations to non-religious causes (as cited here, p. 930).

- **Solicitation** refers to the act of being solicited to donate, or the ‘ask’ as it is referred to in fundraising. There is a wealth of empirical evidence documenting the fact that most donations occur in response to a solicitation. Therefore, it is not surprising that scholars and practitioners have examined how the way in which donors are solicited affects the probability of giving. For the US, Slaughter, Kang and Tax (2003) find that 85 percent of donations in the previous year, among respondents in the 1996 Independent Sector survey on Giving and Volunteering, were made in response to a solicitation. Results from the 2002 Giving in the Netherlands Panel Survey are very similar; 86 percent of donations in the two weeks preceding the survey were also made following a solicitation (as cited here, and Bekkers 2005a). Many studies find a positive
relationship between the number of solicitations received by individuals and their philanthropic activity (e.g., Bekkers, 2005a; Lee and Farrell, 2003; Wiepking and Maas, 2009). However, there is also evidence that increasing the number of solicitations may lower the average contribution (Leslie and Ramey, 1988; Van Diepen et al, 2009; Wiepking, 2008b).

- **Material costs and benefits of donations.** Economists have studied how the tax deductibility of charitable contributions (the price of giving) affects contributions. See this article for a detailed list of papers starting in the 1970s, review by Andreoni (2006) above, and the meta-analysis in Peloza and Steele (2005). Price effects are generally negative, but vary widely between studies, as stated previously.

  A separate body of work examines the impact of increases in the amount requested on the number and level of contributions. There is evidence that increases in the level of contributions for some donors are offset by decreases in the number of contributions, or solicitation response rate (Desmet, 1999; Fraser et al, 1988, with the exception of Alpizar, Carlsson, and Johansson-Stenman, 2007).

  There is evidence that material benefits, in particular services or benefits tied to selected categories, increase donations (p. 934, see Andreoni and Petrie 2004; Harbaugh 1998b). In spite of the fact that small gifts are often included indirect-mail appeals, there is not consistent evidence to support this increases donations (see contradicting findings by Alpizar et al, 2007, and Edlund et al 2007, Chen et al 2006 finds no effect).

- **Reputation** refers to the social consequences of donations for the donor, studied mostly by psychologists and economists. The results are not surprising: giving is generally viewed as a positive thing, and donors receive recognition and approval from others. In fact, in abstract public good games individuals are willing to incur costs to recognize generous contributions (Clark, 2002). Donations increase when they are directly observable by others or are recognized publicly. There is also evidence of the solicitation context affecting the probability of a donation. For example, donations are more likely when a solicitation is carried out in person versus over the phone (Brockner
et al, 1984), looking potential donors in the eye in a door-to-door campaign also increased donations (Bull and Gibson-Robinson, 1981), and viewers of a telethon were more likely to give when the names of donor were shown on the screen (as cited here, p. 937, Silverman et al, 1984).

- **Psychological Benefits** (including altruism) are benefits gained, or costs avoided, by donating. Most studies in this vein are conducted by social psychologists that show giving may contribute to a positive self-image as an altruistic, empathic, socially responsible, agreeable or influential person. There is ample evidence that engaging in helping behavior, including but not limited to giving, produces positive psychological consequences for the helper (Batson and Shaw 1991). In economic models of philanthropy, this is called ‘warm glow’ (Andreoni, 1989). Giving may positively affect mood, alleviate feelings of guilt, or satisfy desires to show gratitude or to be a morally just person. Moreover, mood or benign thoughts may also affect giving. People were found to be more generous after thinking about things in life for which they are grateful (p. 938, Soetevent, 2005), and are more likely to comply with a solicitation for donation after responding positively to the question, “how do you feel today?” (p. 938, see also Aune and Basil, 1994; Dolinksi et al 2005).

Giving may also be a way to avoid psychological costs, including guilt, shame, or dissonance with one’s self-image. Basil et al (2006) links feelings of guilt to donations; feelings of guilt enhance feelings of responsibility and thus lead to giving. In another study, respondents who anticipated feeling guilty about not giving were more likely to give (Smith and Mcsweeney, 2007). Survey studies have also linked altruistic self-image and philanthropy: dispositional empathy is positively related to charitable giving (Bekkers, 2006b; Bennett, 2003, Piferi et al 2006, Wilhelm and Bekkers, 2010).

Other types of self-image may also promote giving: In a UK study, individuals who report a stronger sense of accomplishment are more likely to donate (Sargeant, Ford and West 2007); in a New Zealand study, those with a more active orientation to life were found to be more likely to donate (Todd and Lawson, 1999), and in the
Netherlands, more extraverted individuals were found to be more likely to give, and give higher amounts (Bekkers, 2006b).

- **Values** can drive charitable giving in two ways: certain personal values are associated with an increased likelihood of engaging in philanthropy; also, donors are more likely to give to organizations that share their values (political, social, economic, etc). In the first case, endorsement of prosocial values is positively associated with giving (Van Lange et al, 2007; Bekkers 2007). Other values that have been identified as positively related to charitable giving include altruistic values (Bekkers and Schuyt 2008), being less materialistic (Sargeant et al 2000), endorsing a moral principal of care (Schervish and Havens 2002), and feeling responsible for society as a whole (Schuyt et al 2010). With respect to the second channel by which values may affect donations, Bennett (2003) found that a similarity between personal values and organizational values increases the probability of a donation to that organization. Not surprisingly, studies also find that donors to particular types of charities are more concerned with issues addressed by those charities than non-donors (e.g., Keyt et al 2002).

- **Efficacy** or *perceived impact* refers to donor’s perceptions that their contribution makes a difference to the cause they are supporting. Not surprisingly, people are less likely to give if they think their contribution will not make a difference (Wiepking et al 2010; Smith and McSweeney 2007). It’s difficult to disentangle causality with this question, as respondents may justify not giving by rationalizing the potential donation as ineffective. Experimental evidence may be more informative about the relationship. In general, experimental studies that provide information to donors about the effectiveness of the contribution find positive effects on giving (Jackson and Matthews 1995; Parsons 2007). Also, in an experiment with public goods games, contributions increased with perceived efficacy (Sweeney 1973).

In the Bekkers and Wiepking 2011 review, perceived efficacy is linked to signaling. Leadership donations (in a capital campaign, for example) and seed money are both presented as possible signals of efficacy to other potential donors. What economists call ‘signaling’ is related to what psychologists call ‘modeling behavior’, and
several studies support this ‘modeling effect’ of leaders or high status individuals giving donations, which increase the probability of donations by others (e.g., Kumru and Vesterlund, 2005).

There is also strong evidence to support the link between perceptions of overhead and fundraising costs as being negatively related to efficacy. That is, if potential donors perceive fundraising and/or overhead costs to be high, the organization is perceived as less efficient, and thus potential donors are less likely to give (see Schervish and Havens 2002; Sargeant et al 2000; Bekkers 2003). Perhaps it is not surprising that design or extra elements in fundraising materials were found to be neutral or negatively associated with giving, in most cases (e.g., Warwick 2001).

**Individual Determinants of Charitable Giving: Who Gives?**

The research on who gives is based largely on data from the U.S. Therefore, it is difficult to determine to what extent the findings can be extrapolated to other contexts. Keeping this in mind, this section reviews the literature on the link between individual characteristics—including income and demographics such as marital status, age, and education—and philanthropy. Although most individual or household surveys of philanthropy define it broadly to include donations of time (volunteerism) and money, the literature reviewed here refers specifically to donations of money.

Overall, studies have found that giving is positively correlated with income, wealth, religious participation, volunteerism, age, marriage, educational attainment, and financial security. In addition, those with earned wealth rather than inherited wealth are more likely to give. Since most of the data come from the U.S., scholars have also found that U.S. citizens (versus non-citizen immigrants) are also more likely to give (Havens et al, 2006). It is worth noting that what is being measured here is formal giving, that is, money donations to nonprofit institutions. Informal giving among neighbors, families or friends is not quantified.

A number of researchers have found a relationship between measures of social capital and/or peer group effects on giving (e.g., see Andreoni and Scholz (1998) and
Carman (2003) for evidence of peer group effects. Based on data from the
Independent Sector’s (1992) *Giving and Volunteering in the United States*, research by
Schervish and Havens (1997) conclude that what they call ‘communities of participation’,
groups and organizations in which the donor is a participant or member, are an
important predictor of giving. Given that solicitation (or the ‘ask’) is identified as both
fundraisers and donors as one of the most important determinants of giving, the
relationship between social capital and giving is not surprising. Havens and Schervish
characterize this determinant of giving as the “density and mix of opportunities and
obligations for voluntary association” (Schervish and Havens 1997: 256), and argue that
the relationship of demographic variables to giving (including income, age, marital
status, education, etc) are proxies for associational capital, as described above, or what
has been called “network-based social capital”. (Havens et al, 2006: 545): This is
consistent with findings from Brown and Ferris’ (2007) findings of a positive effect of
social capital--both in terms of associational networks and trust in others--on giving, as
well as a decrease in the predictive ability of variables like religiosity and education
once measures of social capital are taken into account.

Not surprisingly, household income is positively correlated to giving and
amounts: as income increases, households are more likely to give to charity and the
average donation is larger. Many studies on charitable giving have found a U-shaped
relationship between charitable giving and share of income donated to charity. This
means that at lower levels of income, people give a greater share of their income, the
share decreases and flattens out in the middle of the income distribution, and increases
again at the top of the income distribution (Andreoni 2006). However, research by
Havens and Schervish at the Boston College Center of Wealth and Philanthropy
revealed that this U-shape was observed only among households who contribute to
charity (in a sense, a product of sample selection), and was also misleading because it
excluded households at the very top of the income distribution\textsuperscript{8}. If one looks at the relationship between wealth and the share of household income in the U.S. population as a whole, the U shape virtually disappears, and what remains of the U can be explained if one takes into account household wealth in addition to income. Many households at the lower end of the income distribution do not make formal charitable donations, which makes sense given that they have less disposable income. Moreover, charitable contributions of households at the top of the income distribution make up a significant share of all donations\textsuperscript{9}. Thus, except at the very top of the income distribution, most U.S. households contribute a similar share of income to charity, about 2.3 percent of household income on average (including those who contribute nothing, as explained above) for the 98 percent of households with incomes under US$300,000 in 2001. The top 2 percent of households with the highest income contributed 4.4 percent of their income, on average, in the same year\textsuperscript{10} (Havens et al, 2006: 546).

These same patterns hold true for the distribution of wealth, rather than income, and for charitable bequests. Even among households at the top of the wealth distribution, U.S. households with higher levels of wealth leave a larger share of the estate to charitable bequests--and therefore, a smaller share to heirs (Ibid).

As stated previously, a number of demographic characteristics are positively associated with charitable giving. Respondents who state they have a religious affiliation are more likely to donate to both religious and secular causes. In addition, more frequent attendance (at least once a month) to religious services is correlated with higher levels of giving. However, this is based on bivariate analysis using data from the 2002 Giving and Volunteering in the United States. Based on a multivariate analysis using data from California, researchers conclude religious affiliation has no relationship

\textsuperscript{8} This is because most findings were based on data from the 1992 Giving and Volunteering in the United States, which does not oversample households at the top end of the income distribution, so that results are only valid for households with income below US$125,000, about 93 percent of households in 2000. (Havens et al 2006: 545).

\textsuperscript{9} In 2000, the top 7 percent of households accounted for almost half of all charitable contributions from all households (Ibid: 545).

\textsuperscript{10} Based on data from the 2001 Survey of Consumer Finances, as reported in Havens et al (2006).
to giving to secular causes, but is correlated with higher donations to religious causes (Ibid: 550). Giving also increases with age, up to 65 years. After 65, the average amount contributed falls, but the average share of income contributed increases (Ibid). Recent multivariate examining the relationship between gender and charitable giving finds that, controlling for a number of other demographic characteristics, women are more generous than men (Mesch et al 2002), and more recent research by the same group of scholars has confirmed that there are differences in philanthropic behavior by gender, but no by race (Rooney et al, 2005).

The analysis by gender is complicated by the fact that married couples report contributions as a household, making it impossible to distinguish between men and women’s charitable donations within the household. Marriage itself is correlated with more income and more giving in the U.S. population (Havens et al: 551). Although not a demographic characteristic per se, volunteering is also positively correlated with charitable giving (Ibid: 550).

**Giving at the Top of the Wealth Distribution**

The very wealthy represent a significant share of total giving, in spite of being a small fraction of all givers. According to the *Chronicle of Philanthropy*, in 2012 the top 50 individual donors in the US committed US$7.4 billion to charity, up from a low of US$3.3 billion in 2010, but still lower than the levels seen before 2008.\(^\text{11}\) In 2011, giving by the top 50 donors represented 3.5 percent of all individual giving (US$10.4 billion out of a total of US$298.4 billion).\(^\text{12}\) Most of these gifts went to large, elite institutions, with almost two thirds going to higher education, arts and culture, hospitals, and private foundations. This reflects differences in the philanthropic patterns of the rich, as described in more detail below.

\(^\text{11}\) “America’s Big Donors Lag in Charitable Giving”, accessed on April 11 at http://philanthropy.com/article/Americas-Big-Donors-Lag-in/137201/

\(^\text{12}\) “How Much Top Donors Have Given Since 2002”, accessed on April 11 at http://philanthropy.com/article/How-Much-Top-Donors-Have-Given/137025/
One important difference between the very wealthy and other givers is that the wealthy can and do have more control over how their gifts are spent. This includes a seat on the Board of Directors of an organization or institution, the ability to attach conditions to a large gift, or even the ability to create a new organization or foundation (Andreoni 2006). This is what Paul Schervish, of the Center on Wealth and Philanthropy calls ‘hyperagency’. These "superrich hyperagents" are individuals who can do what would otherwise take a social movement to do. Wealth gives the rich higher expectations of their own ability for social change, and more resources to fulfill those expectations (Schervish and Weber 2003: 49). This is similar to Bishop and Green’s characterization of “philanthrocapitalists” as “successful entrepreneurs trying to solve big social problems because they believe they can, and because they feel they should” (2008: 30).

Those at the top of the income distribution also face different taxes. One important difference in the U.S. and other countries with an estate tax is that heirs of the wealthy are subject to this tax on the individual’s estate. Avoiding estate and other taxes motivates some giving by the wealthy. However, in two separate in-depth, qualitative studies with wealthy philanthropists in the US and UK wealthy, taxes did not appear as an important motivator for giving.\(^\text{13}\) In fact, in the U.S., the rich hold a surprising fraction of their giving in estates, which goes against tax incentives. This could be motivated by a reluctance to part with wealth during their lifetime (Joulfaian 2001). It appears that those who inherit wealth, as opposed to those who make their fortunes entrepreneurially, are more likely to hold on to their wealth. Avery and Rendall (1993) find that entrepreneurial wealth is given away at a rate six times that of inherited wealth.

There are differences in the patterns of giving at the top of the distribution of income. Auten et al (2000) report average levels of giving as a share of income, in the U.S., per income group: starting at 2.6 percent of income for households with annual

\(^\text{13}\) In the US, see Ostrower (1997), and in the UK, see Lloyd (1994).
income of US$50,000 or less, and increasing to 4 percent of income for households with annual income of US$2.5 million, on average. The median amount of giving at the US$50,000 annual income level is 1.4 percent of income, while the median giver at US$2.5 million gives 0.7 percent of income. In other words, not only does the average share of income given to charity increase with income, but the variance of giving also increases.

One explanation for the higher variance in giving at the higher end of the income distribution is that giving is done in a more sporadic fashion. Instead of consistently giving smaller amounts over time, the wealthy may prefer to make a large one-time donation. In this way, the gift can have more impact and the donor is more likely to retain more control over how the money is used (Schervish and Havens 2003). Moreover, large one-time gifts are often rewarded with monuments or other recognition (e.g., name on a building), so large gifts may also give donors a greater personal benefit. Finally, another reason giving by the wealthy may be more sporadic and “lumpy” is that the wealthy are more likely to give gifts in kind rather than cash, like appreciated property (e.g., appreciated stocks). (Andreoni, 2006). According to the data from Auten et al (2000), the share of non-cash contributions increases dramatically from 17.2 percent of income for those with annual income between US$50,000 to US$100,000, to 50 percent of income for those with annual earnings of US$2 to 5 million, to 74 percent of income for those earnings US$10 million and above.

The types of charities to which the wealthy give also differ from giving at other income levels. Religious causes represent a very large share of contributions across the entire population, but wealthy donors give almost nothing to religious charities. Even among the wealthy, the share of giving to religious charities declines with income. As reported in Auten et al (2000), estates of less than US$1 million give 27 percent to religious causes, those less than US$5 million give 13 percent, less than US$10 million about 6 percent, and over US$20 million less than 1 percent to religious charities.

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(Andreoni 2006). A notable exception to this pattern are the wealthy Jewish philanthropists in New York City, interviewed by Francie Ostrower (1997) for her study of giving by the very wealthy, who almost without exception, all donated to a large Jewish organization. However, Ostrower explains that this organization provided social services to the general population (so the focus was not on religion per se), and that giving to this organization was perceived as an important part of a Jewish cultural, rather than religious, identity by donors.

As documented in Ostrower (1997), and reflected in Chronicle of Philanthropy’s annual Philanthropy 50, most gifts by the very wealthy—at least in the U.S., for which there is detailed qualitative data on the subject—go to large, elite institutions in higher education, arts and culture, hospitals, and private foundations. For example, in 2012, some of the largest gifts included Warren Buffett’s US$3.1 billion to his children’s charitable foundations, other large private foundations, Mount Sinai School of Medicine, the Allen Institute for Brain Science, UCLA’s School of Public Health, and Columbia University, among others. Elite universities and hospitals are often recipients of gifts from wealthy donors. It turns out that very little of the donations by the wealthiest donors goes to poverty alleviation or social services. Through extensive personal interviews with wealthy philanthropists in New York City, Ostrower (1997) found that donors made a distinction between philanthropy and charity. They considered philanthropy to be a way to contribute to quality of life, whereas charity was seen as appropriate for poverty alleviation and to fund social services. Most philanthropists considered poverty alleviation and the social safety net the responsibility of the government, and felt that they could make a difference by investing their money in arts, culture, education, and health. This has given rise to a strong criticism of philanthropy, and in particular, the tax subsidization of what has been called ‘self-serving’ philanthropy. A 2005 article in the Stanford Social Innovation Review argues that the tax subsidy for charitable contributions is regressive, because the rich get a tax deduction
for contributing to causes that subsidize their lifestyles (e.g., their children’s private school).  

**Impact of the Regulatory Environment**

This section focuses primarily on the optimal tax treatment of charitable giving, which has been the main issue of interest to economists. Many countries provide tax subsidies for charitable contributions, which effectively reduce the price of giving. In the US, for example, charitable contributions can be deducted from taxable income, which means that those with higher marginal tax rates get higher marginal subsidies. Economists have examined various dimensions of the relationship between taxes and charitable giving, including whether the subsidy can be justified in the context of an optimal tax framework, price and income elasticities of charitable donations, tax rules other than the subsidy which affect the price of giving, and the impact of the estate tax on charitable bequests (Andreoni 2006).

In terms of optimal taxation, economic models support the inclusion of a subsidized rate on giving that rises with income, as part of a tax system with increasing marginal income tax rates. Saez (2004) analyzes the optimal tax treatment of voluntary donations in the cases of parametric progressive and linear income taxes. As illustrated in Saez (2004), the optimal subsidy for charitable donations is sensitive to the size of the price elasticity of contributions, as well as the extent of ‘crowding out.’ Diamond (2006) models the tax treatment of private contributions to public goods (which is how

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16 There is also an extensive literature that examines the laws and specific tax provisions (including laws around governance, organizational structure, income earning activities, among others) for nonprofits organizations, published primarily in law journals.

17 In the US, the charitable giving tax deduction was introduced in 1917, as part of a Revenue Act intended to raise money for World War I. Previously, the 1913 Revenue Act introduced the income tax.

18 Clotfelter argues that the tax laws in virtually every other country are less favorably inclined toward formal charitable giving than in the U.S. (see Clotfelter 1985, and Smith 2000 for international comparisons).
economists conceptualize charitable donations), and states that “[t]ax-favored contributions for financing some public goods may be a useful part of optimal nonlinear income tax and expenditure policy (Diamond 2006: 897). On a related note, Scharf (2000) models how majority voting can give rise to subsidized giving. In her model, a median voter can use giving subsidies to favorably affect the distribution of income, leading to welfare improvements relative to total public (government) provision of the public good.

Economists have been interested in calculating the price elasticity of giving as a way to assess the costs and benefits of a tax subsidy for donations. Tax systems that include deductions for charitable donations do so as an incentive to giving. However, there is a cost to providing this subsidy in terms of foregone revenue. The price elasticity of giving determines whether the cost, measured as less revenue, is less than the benefit, captured by more giving. An elastic (less than -1) price elasticity of giving means that the cost is less than the benefit. However, the cost-benefit calculation changes in the presence of crowding out; if there is crowding out, the tax subsidy could still raise more money with a price elasticity greater than -1. The calculation can also be affected by the presence of positive externalities from charitable contributions to public goods, another potential benefit. Therefore, an exclusive focus on the size of the price elasticity may not capture all the costs and benefits of a tax subsidy to charitable giving.

Actual price elasticity calculations in the economics literature differ widely, from -1.26 and -0.08 to -0.51 in recent studies (Andreoni, 2006: 1240).19 That being said, empirical analyses of the impact of taxes on giving conclude that taxes are an important determinant of individual charitable donations (Clotfelter and Steuerle (1981); Clotfelter (1985, 1990); Auten et al (2002)).20 A meta-analysis of the price elasticities of (individual and household) charitable contributions by Peloza and Steel (2005) concludes that tax

19 For a discussion of the econometric identification issues involved in measuring the effects of price and income, see Andreoni 2006, pp. 1231-1235.
deductions are “treasury efficient,” meaning that a decrease in the price of giving of, for example, US$1 results in more than US$1 being donated to charity. However, they also note that all studies reviewed use U.S. data, and very little is known about the price elasticity of giving in other contexts.

In addition to marginal tax rates, there are a number of other tax rules that affect the price of giving. These include caps on charitable donations, limitations on deductions, and the tax treatment of charitable bequests in the estate tax. Charitable deduction caps place limits on how much individuals can deduct as share of their taxable income, and donations of cash and assets are treated differently for tax purposes. In addition to caps on charitable deductions, which are common in many countries, the U.S. also places a limit on all deductions from taxable income. A study by Joulfaian (2000) suggests that wealthy donors in the U.S. don’t deduct over half of their lifetime contributions to charity. The implication is that the first dollar contributed to charity and the last have different marginal prices. Finally, the estate tax can shape giving by the wealthy in important ways, depending on whether charitable bequests are deductible from estate taxes, and therefore another subsidy for giving. Using data from the U.S., both Joulfaian (2000) and Bakija et al (2003) find price and wealth elasticities such that a repeal of the estate tax would result in a significant reduction of charitable bequests.

In the U.S. and other countries, foundations and trusts are other ways to make charitable gifts. Auten et al (2000) have a good overview of the regulations governing them in the U.S., also summarized in Andreoni (2006). Wealthy individuals or families set up foundations as intermediary organizations that make gifts to nonprofit organizations. In the U.S., gifts to foundations are deductible from current income or from an individual’s estate, and must give away 5 percent of its assets each year. Trusts are similar to foundations, but may have charitable and non-charitable beneficiaries. A charitable remainder trust (CRT) pays its non-charitable beneficiary a fixed annuity or a fixed percentage of trust assets, and the remaining assets are transferred to a charity when it expires. The tax advantage of a trust is that the donor can deduct the amount eventually to be given to charity from current income.
The Relationship Between Giving Time and Money

What is the relationship between giving time and giving money? Economists have asked whether donations of time and money are substitutes or complements. Menchik and Weisbrod’s (1987) empirical study of volunteering uses data from the 1974 National Survey on Philanthropy, and examines donations of time (in hours), but not money. More recent studies examine the joint determinants of time and money gifts. Some studies point to complementarity of time and money gifts, and others to substitutability. Freeman (1997) finds a large negative elasticity of substitution between time and money gifts—those with higher wages favor gifts of money. Studies that look specifically at volunteerism by women who are out of the labor force and enter full-time work find little net effect, since the reduction in time available is offset by income effect. It appears the economics literature does not offer a definitive answer on the question of complementarity or substitutability (Andreoni 2006).

However, studies from a broad review of the social science on altruism (Piliarvin and Chiang 1990) found a correlation between volunteering time and giving money: the more participation, the more contributions, and in general, volunteers were found to be more likely to give money to charity than non-volunteers. In addition to giving billions of dollars to charitable causes every year, Americans also give a lot of time as volunteers. According to Independent Sector’s Giving and Volunteering in the United States (2001), 44 percent of respondents claimed to volunteer with a charitable organization, with volunteers averaging 15 hours per month. The size of the volunteer sector varies widely across countries, but overall, represents a significant share of the nonprofit sector. In a comparative study of the nonprofit sector across 22 countries in Western Europe, Central and Eastern Europe, Latin America (Mexico, Colombia, Peru, Brazil and Argentina), and other developed countries (USA, Japan, Australia, and Israel), researchers at Johns Hopkins University found that, on average, 28 percent of the
population in these countries contributed volunteer time to nonprofit organizations. With volunteers included, the nonprofit sector was found to represent, on average, 7 percent of the total nonagricultural employment in these countries, 14 percent of the service employment, and 41 percent of the public sector employment (Salamon et al, 1999: 10)\(^\text{21}\).

**Philanthropy in Latin America**

A report commissioned by the IADB in 2003 characterizes philanthropy in Latin America as evolving from traditional charitable giving to a “vibrant locally grown landscape of foundations” engaged in strategic investment and venture philanthropy (Alter 2003: 79). These conclusions are based on a 2001 report by The Synergos Institute\(^\text{22}\), which surveyed institutional philanthropy in Brazil, Mexico and Ecuador, among a number of other countries outside of Latin America. The report describes a transition—particularly in Mexico and Brazil—to a more institutionalized, strategic (as opposed to charity-oriented) philanthropy among the wealthy elite and the corporate sector. They attribute the change to three main factors: a large and growing gap between the rich and the poor; a growing nonprofit sector that has increased the possibility of cross-sector collaboration and dialogue; and an emerging trend of community foundations, which have served to educate more affluent members of society to community development issues and needs (Dulany and Winder, 2001).

In Brazil, Synergos attributes a move towards a more strategic corporate philanthropy as a response to the impact of inequality, and the accompanying crime and insecurity, on the quality of life of the rich. An example is the ABRINQ Foundation for Children’s Rights, founded in 1990 by firms in the toy industry. ABRINQ promotes

\(^{21}\) More recent data from the Johns Hopkins comparative nonprofit sector project is available for a smaller number of countries, but confirms the nonprofit sector continues to be a significant employer across countries, making up 7.4 percent of the workforce on average, and that volunteer labor makes up a significant share of the nonprofit labor force, about 30 percent on average (Salamon et al 2013: 2).

\(^{22}\) Available at: www.synergos.org
the rights of at-risk children and youth, both by advocating for policies aimed at this population, as well as promoting and disseminating successful models, policies and actions that can be replicated (Ibid: 2). Organizations such as Mexico’s CEMEFI (Centro Mexicano para la Filantropía), and associations like GIFE (Group of Institutes, Foundations and Enterprises) in Brazil have also played a role in the institutionalization and promotion of strategic philanthropic initiatives (Dulany and Winder 2001).

The Synergos survey documents an important increase in the number of private and corporate foundations between 1980 and 2000 in the three Latin American countries, with important differences across countries in the type of foundation, and the share of foundations with an endowment. In Brazil, the number of foundations went from 16 in 1980 to 31 in 2000, of which roughly 60 percent were corporate foundations, and only 16 percent had an endowment. Although both Ecuador and Mexico experienced increases in total foundations (Ecuador from 6 to 21, and Mexico from 25 to 74 foundations in the same period), most of these foundations were private rather than corporate (71 percent and 77 percent in Ecuador and Mexico, respectively). Perhaps because of the majority of private foundations, these countries also had larger shares of foundations with an endowment: 60 percent in Ecuador, and 64 percent in Mexico (Ibid: 3).
Effective Philanthropy: From Charity to Social Investment

A reader of the current literature on philanthropy comes away with the feeling that a dramatic change is underway in the way philanthropy is conceptualized and practiced today, both by wealthy individual donors and foundations. This new and improved philanthropy has been characterized as ‘strategic’, ‘mission-driven’, and ‘effective’, among others. Most recently ‘venture philanthropy’ has been used to describe an approach modeled on venture capital investments. In fact, a careful reading of the literature shows that these changes have been underway for over two decades. And although the terminology has evolved, all of these terms reflect a trend towards applying business concepts, tools and methods to philanthropy.

There is a thriving non-academic literature on maximizing impact or effectiveness of philanthropy, largely aimed at donors, potential donors, or aspiring donors. In general, this literature can be characterized very broadly as applying management concepts or tools to philanthropy, with some exceptions, as noted below.

A well-known recent non-academic book touting this ‘new’ approach to philanthropy is *Philanthrocapitalism: How the Rich Can Save the World*, by Matthew Bishop and Michael Green (2008). The focus is on how and why some of the wealthiest people (mostly men) in the world are using the same skills and strategies that have made them successful in business, to carry out social change. Although the authors do refer briefly to concerns about growing global inequality at the start of the book, economic inequality is portrayed implicitly as a given, and therefore positive, since it forms the basis for this new “movement” of philanthrocapitalism.23

One of the key ideas of the book is the link between tremendous wealth made entrepreneurially—rather than inherited—and the philanthrocapitalist approach.

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23 The authors characterize philanthrocapitalism as a movement that “is growing hand in hand with the rise in the number of very rich people on the planet” (p. 5).
According to the book, self-made wealth has two important implications: first, not only do these men feel a desire to ‘give back’ to society, but they also have the resources and ability to carry out large scale change--what Paul Schervish of Boston College’s Center on Wealth and Philanthropy calls ‘hyperagency’ (Schervish 2003); second, their approach to giving is described as “strategic”, “market conscious”, “impact-oriented”, “knowledge based”, “high engagement”, and one which maximizes the “leverage” of donor money. Consistent with this framework, donors are social investors who may engage in “venture philanthropy” (Bishop and Green 2008: 6).

How does this translate into the policies and practices of donors and foundations? The book relies in large part on the Bill & Melinda Gates Foundation to illustrate these ideas. The Gates Foundation approach emphasizes ‘knowledge based’ programs, meaning initiatives that are backed by evidence-based research, with an emphasis on quantitative methods and data. This also applies to their ‘impact oriented’ approach, which translates into a commitment to funding program impact evaluations based on an experimental design---the “gold standard” of quantitative evaluations.

Another distinguishing feature of philanthrocapitalism, as described by the authors, is the desire to tackle large-scale social problems. Two aspects of the Gates Foundation approach designed to enable large-scale social change are (i) leveraging funds through strategic partnerships, and (ii) funding models that can be replicated and scaled up. Maximizing the leverage of donor money often involves strategic partnerships. For example, the Gates Foundation partnered with the Rockefeller Foundation to fund the Alliance for a Green Revolution in Africa (AGRA), aimed at increasing the productivity of small farmers and in doing so, reducing hunger and poverty in the region.24

Partnerships can also play an important role in going to scale. In New York City under Mayor Bloomberg, the Gates Foundation found a “friendly” place to test educational models and scale them up. At the global level, the Foundation’s Global http://www.gatesfoundation.org/Media-Center/Press-Releases/2006/09/Foundations-Form-Alliance-to-Help-Spur-Green-Revolution-in-Africa

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Alliance for Vaccines and Immunization (GAVI), launched in 2000, involves multiple
public-private partnerships with non-governmental organizations, governments, and
multilateral agencies (Ibid: 65-66). Increasingly, the Gates Foundation has also learned
that it must invest in advocacy, in order to influence the national (and global) policy
agenda around key issues of interest to them.

Too often, the book feels like a celebration of the Bill & Melinda Gates
Foundation’s approach, programs, and operations. For those interested in
understanding the US and global philanthropic landscape, there are good reasons to
study the Gates Foundation. With a total endowment of US$36.4 billion, and annual
giving of US$3.4 billion in 2012\(^25\), the foundation’s endowment and annual giving far
outweigh any other single foundation in the US (and likely globally). To get a sense of
the relative scale, the GlaxoSmithKline Patient Access Programs Foundation, ranked just
below the Gates Foundation in 2011 annual giving, distributed US$605.4 million in
grants and contributions, equivalent to about 18% of the Gates Foundation’s annual
giving in the same year.\(^26\)

To be fair, the book does explore one area in which the Gates Foundation’s
approach has come under strong criticism: its approach to global health (Ibid: 67).
Among other things, critics contend that a narrow focus on drug development that
neglects broader investment in health care systems and delivery is bound to fail. The
argument is simple: a drug is of no use without the infrastructure, including trained
personnel, to deliver it. Or, as Anne-Emmanuelle Birn states in The Lancet, “the Gates
Foundation has turned to a narrowly conceived understanding of health as the product
of technical interventions divorced from economic, social and political contexts” (Birn

\(^{25}\) As of December 31, 2012. Reported by the Gates Foundation in their Factsheet, obtained at:
http://www.gatesfoundation.org/Who-We-Are/General-Information/Foundation-Factsheet
(accessed on April 20, 2013).

\(^{26}\) Data on top 100 U.S. foundations by total giving from
FoundationCenter:http://foundationcenter.org/findfunders/topfundersons/top100giving.html
(accessed on April 20, 2013)
Although not specifically focused on the Gates Foundation, Laurie Garrett’s article assessing global health initiatives in *Foreign Affairs* illustrates Birn’s critique with an example from Botswana. In 2000, the Gates Foundation partnered with the government of Botswana, the pharmaceutical companies Merck and Bristol-Myers Squibb, and the Harvard AIDS Initiative to launch an HIV/AIDS treatment program in Botswana. Implementation was delayed by five years because Botswana—considered a propitious setting due to its political stability, sound general infrastructure, and growing middle class—lacked the health care workers and medical infrastructure to implement the program (Garrett 2007: 25). Although the program has since succeeded in its treatment goals, the gains are precarious. There is concern that prevention efforts are not successful, that patients are increasingly developing drug-resistant HIV strains, and that scarce doctors and nurses are drawn away from the general healthcare system for HIV/AIDS-only care (Ibid: 26).

This example illustrates a larger issue with the premise of philanthrocapitalism: successful large-scale social change in one arena (e.g., global health) may require bringing about broader changes in political, economic or social institutions. From the book, it is unclear whether or how different historical and institutional contexts affect philanthrocapitalism. The book’s focus is almost exclusively on the U.S., with occasional references to the U.K. Although the authors point out that many less developed countries also have their share of millionaires and billionaires, including India and China, they do not address the nature of the origins of wealth in other regions, or provide evidence for a similar shift towards applying business tools to philanthropy. Given the book’s emphasis on the importance of the source of wealth (self-made and entrepreneurial) to the philanthrocapitalist approach, it seems odd to simply assume that billionaires and millionaires in other regions are primarily self-made and/or entrepreneurial, particularly in countries or regions with more limited social and economic mobility relative to the US.

The authors draw an analogy to US philanthropists of earlier times, in particular Andrew Carnegie. In Carnegie’s book *The Gospel of Wealth*, also written at a time of
great economic disparities in the US, he proposes the rich should give away their money during their lifetime, rather than leave it as inheritance or bequeath it to the state. Today’s philanthrocapitalists, most notably Bill Gates, George Soros, and Ted Turner, follow in Carnegie’s footsteps. Although there are many examples of philanthropists throughout the book, including the ‘celebrity philanthropist’, the heavy focus on The Bill and Melinda Gates Foundation leaves one wondering whether philanthrocapitalism truly reflects a larger shift in the ways in which major philanthropists and foundations operate, beyond Gates.

In contrast to the more prescriptive approach of philanthrocapitalism, *Give Smart: Philanthropy That Gets Results*, argues that, due to the deeply personal and highly circumstantial nature of philanthropy, there is no single framework or set of tools that can be used by everyone. The authors are well known in the social sector: Tierney was a founder of the Bridgespan Group, and Fleishman is a scholar in the field, and author of a previous book on foundations in the United States (reviewed below). Rather than advocating a specific approach, the authors propose a series of questions designed to guide donors towards higher impact philanthropy. These questions are designed to address what they call philanthropy’s ‘terrible truths’, and avoid its traps (Tierney and Fleishman 2011).

The first “terrible truth” is that all philanthropy is personal, and therefore guided by personal values and beliefs rather than results. To complicate matters, feedback on the results or impact of a donor’s efforts can be ambiguous, or worse, even suspect. Recipients want to tell donors what they want to hear, and givers want to believe they are making a difference. In short, it is difficult to assess whether results are directly attributable to a particular program or initiative. Finally, the last and “most terrible” truth is that philanthropy has no built in mechanism (like the market) to motivate continuous improvement. In other words, excellence is self-imposed (Ibid: 2-5).

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27 See Chapter 11, “Enter the Celebansthropist” for more on celebrities’ roles in philanthropy.
The authors also caution against pitfalls, or traps donors should avoid: (i) “fuzzy headedness”, described as the absence of logic and thoughtful analysis, (ii) flying solo, since successful efforts often require many collaborations and partnerships, and (iii) underestimating and underinvesting the resources required for successful implementation, which is related to (iv) nonprofit neglect. The last two pitfalls are a well-known critique of institutional philanthropy’s widespread resistance to provide general operating support, based on the assumption that all overhead costs in nonprofits are wasteful or bad. This underfunding of grantees leaves nonprofits unable to develop organizational capacity, and hinders programmatic efforts (Ibid: 12-15).

Give Smart is organized around a series of six questions to facilitate a process of rigorous inquiry for donors that leads to results: (i) what are my values and beliefs?, (ii) what is “success” and how can it be achieved?, (iii) what am I accountable for?, (iv) what will it take to get the job done?, (v) how do I work with grantees, and (vi) am I getting better? In addition, throughout the book, the authors give examples of philanthropists or philanthropic initiatives to illustrate the process through the experiences of leading philanthropists.

An important contribution of the book is its emphasis on the critical importance of the donor-grantee relationship, and the role that funders play in promoting or hindering nonprofit effectiveness. It is critical of the so-called nonprofit starvation cycle, a result of funders with unrealistically low expectations of the costs of running a nonprofit. In response, nonprofits are persistently underfunded, constantly under pressure to cut overhead, and thus very limited in their ability to improve or expand organizational capacity (Ibid: 147). The authors also emphasize the importance of partnering with grantees to ensure there is a shared definition of success, and that both partners benefit, because the relationship enhances the grantee’s capacity to generate results (Ibid: 152).

Finally, although the authors do not explicitly subscribe to the strategic, effective, or venture philanthropy approaches, their examples and questions raise similar issues. For example, they promote strategic thinking, but believe that donors need to have
clarity around their values and beliefs before moving on to defining a strategy. But this seems like semantics: strategy is creating a roadmap to achieve a mission and vision that should reflect values and beliefs. Similarly, they ask donors to define success and hold themselves accountable, by defining success, devising a plan of how this success can be achieved, and having clarity around what the donor is accountable for. Strategic planning should answer how and what resources are needed, and the emphasis on accountability is shared with advocates of effective philanthropy. Perhaps the real difference is that the authors are largely agnostic on how the donors go about defining success and results, and are not prescriptive about particular methods, tools, or research methodologies. For them, the process of examining these questions will not only enable donors to bring about their visions, but also to live a richer and more meaningful life.

Joel Fleishman first put forth some of the ideas featured in Give Smart in an earlier book, *The Foundation: A Great American Secret* (Fleishman 2007). This book has a more academic feel, but does aim to give practical advice to foundations and policymakers. It is divided in three parts: the first section reviews the role of foundations and the civic sector; more of an overview of the sector in the United States, what they do, and how they do it. The second section of the book focuses on how to achieve impact, and includes twelve historical case studies of high impact initiatives in the United States, spanning the entire 20th century28. This stands in contrast to the current case studies or examples referenced by most books, and may be the author's way of emphasizing that effective philanthropy pre-dates “new” approaches—although this is not explicitly stated in the book.

The final section is the most ambitious: it aims to diagnose, provide a how-to guide to strategy, and make recommendations to foundations and policymakers. The section starts by examining the criticisms that have been made of foundations, followed

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28 These 12 case studies are condensed versions of longer cases, and were selected from among 100 case studies that are part of a research project on foundation impact, available at: [http://cspcs.sanford.duke.edu/publications/casesforthefoundation](http://cspcs.sanford.duke.edu/publications/casesforthefoundation)
by a step-by-step guide to approach strategy in a way that leads to high impact. The book then goes on to review the ways in which foundations fail, as well as the essential practices of effective foundations. It ends by putting forth a number of proposals to enhance foundation effectiveness. Although there are definitely echoes of this book in *Give Smart, The Foundation* is much more broad in its scope, and (not surprisingly) more heavily focused on foundations themselves, rather than the relationship between funders and grantees.

Two other recent books written by leaders in the field include *Money Well Spent: A Strategic Plan for Smart Philanthropy*, by Paul Brest and Hal Harvey, from the William and Flora Hewitt Foundation, and *The Art of Giving: Where the Soul Meets a Business Plan*, by Charles Bronfman and Jeffrey Solomon, of the Charles and Andrea Bronfman Philanthropies.

With the exception of *The Foundation*, the books reviewed all present themselves as targeting an audience of donors, potential donors, and aspiring donors. However, the advice given applies almost exclusively to very wealthy individuals, who can either establish their own foundations, or make gifts that are large enough to influence the practices and policies of recipients.

In contrast, *The Art of Giving* provides an accessible introduction to philanthropy and the world of nonprofits, and somewhat more realistic examples of how individuals at different levels of income may participate in this world. Rather than prescribe a specific approach to giving money, it covers a range of topics including types of donors, ways of working with nonprofits, family foundations, and financial advice around giving (limited to the U.S., with a supplement for Canada available online). It also includes a comprehensive list of nonprofit resources at the end (Bronfman and Solomon 2009).

In *Money Well Spent*, Brest and Harvey (2008) have written a well-organized and accessible guide to strategic philanthropy. Brest, head of the William and Flora Hewlett Foundation, is a well-known advocate of this approach within the philanthropic world. The book builds on earlier work to clarify the framework and tools of strategic philanthropy. The following section reviews this approach in more detail.
The “New” Philanthropy: Strategic, Effective, and Venture Philanthropy

The academic literature on philanthropy, particularly corporate philanthropy, has also undergone a transformation in the past three decades: from a conceptualization of philanthropy as little more than charity, to philanthropy as an investment, with social returns. Perhaps the first step towards conceptualizing philanthropy as an investment was what was called “strategic philanthropy”, published initially within the corporate social responsibility literature. In reality, much of the early literature on “strategic” corporate philanthropy consisted of “cause-related marketing” or other charitable donations that would raise the public profile of the company. Corporate philanthropy was largely perceived as a form of marketing. Not surprisingly, many articles on what was then called strategic corporate philanthropy were published in marketing journals (e.g., Varadarajan and Menon 1988).

An early academic contribution that attempted to redefine strategic philanthropy as value creation, beyond marketing or public perception, was Porter and Kramer’s (1999) HBR article, “Philanthropy’s New Agenda: Creating Value.” In the article, strategy, as applied to institutional (corporate or private foundation) giving, is defined as a set of four practices: (i) achieving superior performance in a chosen area, by measuring the performance of both funders and recipients over time, (ii) choosing a unique positioning based on the foundation’s resources, culture, and the landscape in which it operates, (iii) tailoring foundation activities—selection process, size and duration of grants, nonmonetary support, reporting and evaluation procedures, composition of its staff and Board—to its unique positioning, and (iv) recognizing tradeoffs and foregoing opportunities in order to focus on its positioning (Porter and Kramer 1999). In other words, Porter and Kramer are advocating doing what any good business plan should do: identify a unique value proposition (although this term is not used) that underlies strategy and operations. Since foundations lack the feedback mechanism of the market, Porter and Kramer also emphasize the use of measurement.
and evaluation as a way for foundations to assess their impact and inform their strategy going forward.

The approach has not been without its critics. The chapters by Dennis Collins, “The Art of Philanthropy” and Bruce Sievers, “Philanthropy’s Blindspots” in Just Money: A Critique of Contemporary American Philanthropy (Karoff 2004) lay out two critiques of the “new” approaches to philanthropy. Collins argues that measurement does not necessarily lead to clarity or learning. Good philanthropy, like good teaching, is more art than science, according to the author. He cautions against the excessive focus on metrics, and measurement of results (which, he argues, are almost always uncertain), at the expense of broader standards of accountability that communicate clarity of purpose, policies and procedures, and openness to criticism and new ideas (Collins 2004: 69).

Bruce Sievers, an outspoken critic of the application of business ideas and tools to philanthropy, lays out an articulate critique of the ways in which business thinking can hurt, rather than enhance results. Among them, the creation of artificially low targets in response to pressure from funders to define numerical targets at the outset, the narrowing of program focus to include only measurable outcomes, and the setting of agendas by funders rather than in response to needs identified by those working in the field. The result are “foundation-driven, narrowly conceived programs that pursue narrowly defined objectives” (Sievers 2004: 135). Ultimately, he argues, social change is not a simple, linear process that can accurately captured to obtain a measure of “social return on investment” (SROI). According to Sievers, the focus on foundation-driven agendas, measurable outcomes and concrete deliverables actually reduces the potential social impact of philanthropy. It does so by excluding complex, messy, and large-scale social change issues, which don’t lend themselves to quick, tangible results (Ibid: 138).

In an article responding to scholarly critiques of the strategic philanthropy, Paul Brest, President of the William and Flora Hewlett Foundation (the fifth largest
foundations in the U.S., by asset size) defines strategic philanthropy as an approach that entails setting clear goals or objectives, developing an empirically sound plan to achieve those goals, assessing the plan’s costs, risks and benefits in light of the organization’s resources, and monitoring whether the organization is on track to achieving its goals (Brest 2005: 132). In response to two leading critics from within philanthropy, he argues first that the vast majority of foundations in the U.S. have not implemented a strategic approach, and also cautions against confusing means and ends. Rather than replacing passion, mission, and commitment (as critics argue), strategy is a vehicle for achieving them (Ibid: 140).

In a subsequent book co-authored with Hal Harvey, Brest refines the definition of the strategic philanthropy approach to four main (i) clearly defined goals, commensurate with resources, (ii) strategies for achieving the goals, explicitly set out in a business or strategic plan, (iii) strategies that are evidence-based, meaning there should be a clear “theory of change” that links programs to outcomes, based on existing research, and (iv) feedback to keep the strategy on course, with an emphasis on quantitative measures and impact evaluation (Brest and Harvey 2008).

The term effective philanthropy has been more widely used by practitioners—foundation leaders, staff, and Board members—concerned about the impact of giving, particularly given that the philanthropic sector does not face market feedback mechanisms, or other types of pressures, like those faced by public officials who want to be re-elected. Thomas Tierney and Joel Fleishman characterize this as one of philanthropy’s “terrible truths” in their book Give Smart (2011). In their words, there are no built-in systemic forces that force improvement in philanthropy. That being said, they do not consider it as a pure negative. According to them, the absence of external accountability has enabled philanthropy to experiment, take risks, and pursue long-term initiatives (Tierney and Fleishman 2011: 5).

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29 According to 2013 data from FoundationCenter.org, available here: http://foundationcenter.org/findfunders/topfunderson/top100assets.html
Effective philanthropy is characterized by an emphasis on the measurement and evaluation of foundation efforts, programs, performance, and impact (Katz 2005). Tierney and Fleishman emphasize accountability, and urge donors to hold themselves accountable to a high standard, since no one else will do it for them. They also have a useful categorization of the different purposes measurement serves in the nonprofit sector: (i) accountability (what did donors get for their money?), (ii) learning for continuous improvement (given what we learned, how can we improve?), and (iii) proof of impact. To clarify, they define accountability as an assessment of the implementation process, rather than an impact evaluation of outcomes (Tierney and Fleishman 2011: 197).

The distinction between accountability and proof of impact is an important one. Traditionally, foundations have focused their measurement efforts on accountability of grantees, rather than evaluations for learning or proof of impact. More recently, impact evaluation—a one-time assessment designed to evaluate whether there is evidence to establish a causal link between a specific program and one or more desired outcomes—has attracted a great deal of attention. Impact evaluation seeks to address causality, and therefore focuses on outcomes rather than process.

The gold standard of program impact evaluation is considered the Randomized Controlled Trial (RCT), which originated in medicine. An RCT involves random assignment of ‘treatment’ (participation in the social program), or to be precise, random assignment of eligibility, since actual take-up is non-random. This creates a ‘control’ group, that is, a comparable group of individuals or communities that are (randomly) not eligible to participate in the program. Randomized impact evaluations of social programs were initially carried out in less developed countries, but are now increasingly common in the U.S. Perhaps the best known, early, large-scale randomized evaluation of a social program was carried out in Mexico in the late 1990s, to evaluate a poverty reduction program then called Progresa (now Oportunidades), that provides cash transfers to
women in poor families with children, conditional on health clinic visits and regular school attendance for school-aged children (Parker and Teruel 2005).30

Since the late 1990s, randomized evaluations have been carried out throughout the developing world, both at small and large scale. It is now a staple of academic work in micro-development economics, with strong support from multilateral lenders such as the World Bank and regional development banks. Two recent books by prominent scholars in the field review many randomized trials of social programs that have been carried out (primarily) by academic economists, and their implications for poverty reduction (Banerjee and Duflo 2011; Karlan and Appel 2011). In the U.S., the Bill and Melinda Gates Foundation’s approach to philanthropy emphasizes measurement and evaluation, and has been a strong supporter of impact evaluation of social programs.31

Advocates of effective philanthropy recognize the difficulties involved in measuring impact. Randomized evaluations take a lot of time and money, and specific technical skills of social scientists. Establishing causality is desirable, but once all costs are taken into account, even funders that support measurement and evaluation may opt for less rigorous forms of assessment (Katz 2005). Surveys of CEOs from among the largest private foundations in the United States confirm that foundation leaders place a great deal of importance in assessing foundation effectiveness, while recognizing the difficulty of measuring impact. Rather than focus on program impact evaluations, foundations use other measures to assess performance, such as whether the foundation has strengthened grantees, to what extent it has influenced thinking in its field, and whether it has ‘leverage’, meaning whether it has persuaded other foundations to fund its grantees (Center for Effective Philanthropy 2002; 2011).

Some critics have argued that neither approach, strategic or effective, includes new developments. Rather, they argue that the practices advocated by both strategic

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30 The Parker and Teruel article is part of a May 2005 issue of the Annals of the American Academy of Political and Social Science dedicated to randomized trials of social programs.
31 See, e.g., this SSIR blog post featuring a conversation with the director of Strategy, Measurement and Evaluation at the Gates Foundation: http://www.ssireview.org/blog/entry/actionable_measurement_at_the_gates_foundation
and effective giving—in short, strategically tackling causes rather than symptoms, and focusing on outcomes—are no different from sound grant making practices that have been in place for decades (Katz 2005). Interestingly, both proponents and critics argue that influential American philanthropists like Andrew Carnegie and John D. Rockefeller approached philanthropy in a way that incorporated these ideas (Katz 2005; Tierney and Fleishman 2011; Bishop and Green 2008).

Venture Philanthropy

A seminal article by Letts, Ryan, and Grossman (1997) in the Harvard Business Review first proposed applying venture capital practices to the nonprofit sector. Specifically, they argued that foundations had a number of funding practices towards nonprofits that were counterproductive, and that they could benefit by shifting their approach to include practices used by venture capital firms to identify and support recipients of funding. In particular, they pointed to foundations’ unwillingness to fund organizational capacity, and limited funding horizons of one to three years, as factors limiting the potential social impact of nonprofit organizations.

Typically, foundations are most interested in developing and testing new social programs, which translates into mostly funding innovative social programs for one to three years. Afterwards, they expect the nonprofit to be able to find a way to sustain the program in the long term—in spite of a dearth of interest from institutional philanthropic organizations to underwrite existing social programs originally funded by others. Although this encourages innovation on the part of potential recipients of foundation grants, the approach also systematically underfunds organizational capacity, and leaves organizations scrambling to find funding for ongoing, successful programs (Letts et al 1997).

Foundations do the bulk of their work identifying and assessing funding opportunities before disbursing the grant. Afterwards, they adopt an oversight role, primarily to monitor the management of the grant by the nonprofit. Venture capital firms, on the other hand, partner closely with their recipients of funds, and offer a range
of noncash management and technical assistance to develop organizational capacity. Consistent with an active role in the management of the firms, the length of the relationship between the venture capital firm and the recipient of funds is several years, with an exit strategy clearly established. In the interim, funding provided covers all aspects of business development, including overhead and operational costs. The partnering includes a set of clearly defined financial and organizational performance metrics established at the outset. Finally, venture capital firms actively manage their portfolio risk, and assess risk versus returns for each project (Ibid).

Another important dimension of the venture philanthropy approach is scaling up of social programs. Traditionally, foundations have operated as funders of pilot or demonstration programs, with the idea that successful efforts would be scaled up by government. Venture philanthropy’s approach towards getting to scale relies on building organizational capacity in three main ways: (i) investing large sums of capital over an extended period of time, (ii) applying management tools and methods to nonprofit strategic planning, and (iii) developing measures for a “social return on investment.” Thus, the approach supports organizations in the scaling up of operations, and more importantly, broadening social impact (Frumkin 2003).

This approach to philanthropy is also tied to the source of entrepreneurial wealth of funders. Scholars from Boston College’s Center on Wealth and Philanthropy (Schervish, O’Herlihy and Havens 2001) examined the motivations and giving practices of high-tech wealth holders, and found many of them to be early supporters of venture philanthropy. These high-tech entrepreneurs approached their philanthropy in much the same way as a venture capital investment. Not surprisingly, the majority of venture philanthropy funds in the US are headquartered in Silicon Valley and/or the San Francisco Bay Area. Some well-known Silicon Valley-based organizations are the Silicon Valley Social Venture Fund (SV2), the Skoll Foundation, and Omidyar Network, among others. The
Acumen Fund in New York City and New Profit, Inc. in Boston, MA, are two prominent venture philanthropy funds based elsewhere.\footnote{For a larger list of venture philanthropy organizations in the U.S., see Moody (2008) and Venture Philanthropy Partners’ survey (2002).}

There have also been critics to the approach. In a 1999 *Chronicle of Philanthropy* article, Mark Kramer argues that fundamental differences between philanthropy and venture capital investment make the approach unworkable as a model for funding social investments. He cites cultural differences between the nonprofit and for profit sectors, including differences in the role of the board—with for profit boards characterized as “driving management to meet its targets”, and nonprofit boards characterized primarily as “supporters who are pleased merely to be involved”—and the degree of control of funders over recipients of funds—much higher in venture capital—as cultural impediments to adoption (Kramer 1998: 72). Beyond cultural differences, he argues, crucial differences in the nature of financial versus social returns also make the model inapplicable to philanthropy. A venture capital portfolio typically includes more failures than successes. Venture capital investors bet on the phenomenal success of a few investments to compensate for the losses of most projects. It is problematic to apply the same logic to social investments: does one wildly successful social program compensate for the failure of many others in a philanthropy portfolio? (Ibid).

Others have argued that it is not clear how much venture philanthropy differs, in practice, from traditional philanthropy, beyond the language used (Frumkin 2003). In venture philanthropy, grants are investments, donors are investors, impact is called social return, the grant review process is called due diligence, and a grant list is an investment portfolio. However, many of the organizations supported by venture philanthropy funds also receive grants from traditional foundations, and funding from venture philanthropy does not necessarily represent a substantial portion of the operating budgets of recipient organizations (Frumkin 2003; John 2006). Similarly, Kramer (2002) argues that the main elements of venture philanthropy—building operational capacity, close or high engagement between donors and recipients, and
clear performance expectations—are not new at all, and have simply been the practices of effective philanthropists for decades.

In spite of the criticism, the practice of venture philanthropy continues to grow in the U.S. and Europe, and scholars and practitioners continue to write about this approach (e.g., John 2006). However, the attention it has received seems disproportionate relative to the size of the sector within philanthropy. A 2001 survey of U.S. venture philanthropy activities found 42 entities using this model to disburse US$50 million in that year, roughly 0.02 percent of the US$3 billion disbursed in the same year by an estimated 61,000 charitable foundations in the U.S. (Moody 2008: 326). That being said, venture philanthropy has likely grown significantly since this survey was carried out. For example, New Profit, Inc., a Boston-based U.S. venture philanthropy fund, went from funding commitments of US$15 million social investments in 2003, to US$189 million in commitments in 2012. Like New Profit, most other U.S.-based venture philanthropy funding is in the form of non-returnable grants. That is, it seeks a social return on investment, but not a financial one (John 2006).

In spite of its relatively modest scale, venture philanthropy is often touted as an example of the new philanthropy models, and it is part of the larger trend of applying business practices concepts, tools, and practices to the nonprofit sector in general, and to philanthropy in particular, as stated in a previous section of this review. Until now, however, the academic literature on venture philanthropy has been limited primarily to descriptions of the approach (Frumkin 2003; John 2006; Martin 2007), along with case studies or examples (Lafrance and Latham 2008; John 2006; Lenkowsky 2011). Two recent exceptions are working papers by Scarlata and Alemany (2009; 2010) that build on the venture capital literature. Given the limited venture philanthropy literature, it

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may be more useful to examine it in the context of the literature on social enterprises and social entrepreneurship, reviewed below.

**Shared Value: Blurring the Boundaries Between Nonprofits and For Profits**

In a series of articles in the *Harvard Business Review*, Michael Porter and Mark Kramer make the argument that corporate philanthropy can be used strategically to create both social and economic value (Porter and Kramer 2002; 2006; 2011). They start by questioning the assumption that social and economic objectives are distinct and competing, characterizing it as a false dichotomy that underlies much of the thinking on corporate and foundation philanthropy. Truly strategic philanthropy, they argue, targets areas of competitive context where society and the firm both benefit, because the company can bring unique expertise and assets to bear (Porter and Kramer 2002: 6). They posit there is an area between pure business and pure philanthropy where there is the potential to create both social and economic value.

The concept of shared value was made explicit in their subsequent article, “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility” (2006). Most recently, they go further to argue that shared value has the potential to “unleash the next wave of global growth” (Porter and Kramer 2011: 5). Shared value is explicitly defined as policies and practices that enhance a firm’s competitiveness, while also advancing the social and economic conditions in the communities in which the firm operates. They emphasize the importance of applying the concepts of value (understood as benefits relative to costs) and value creation to social initiatives, both in the corporate and social sectors (Ibid: 6). Porter and Kramer (2011) propose three key ways for companies to create shared value: (i) reconceiving products and markets (e.g. providing appropriate products to lower income and disadvantaged consumers), (ii) redefining productivity in the value chain (e.g., reducing packaging that is costly in both environmental and financial terms), and (iii) enabling local cluster development of related businesses, suppliers, service providers and infrastructure (e.g., cut flowers in Kenya or IT in Silicon Valley).
As defined, the concept of shared value blurs the line between for profit and nonprofit. Porter and Kramer argue that the principles apply to governments and nonprofit organizations as well (Porter and Kramer 2011). Other scholars have argued that examples such as Google.org, the firm’s division focused on philanthropic endeavors—tasked with addressing global issues of climate change, poverty, and emerging diseases—go beyond CSR, and blur these boundaries in practice (Reiser 2009). The next section focuses explicitly on these hybrids of for profit and nonprofit: social enterprises.

Social Enterprises

Although there have been a variety of definitions proposed for a social enterprise, there are common elements around the mission and funding aspects: these are organizations that operate through the marketplace and address social needs (Young 2001). The definition proposed by the Social Enterprise Alliance includes three aspects that distinguish a social enterprise from a nonprofit and from another type of business: (i) it addresses a social need and serves the common good, either through its products or services, or through employment of target populations; (ii) its commercial activity, whether from a for profit enterprise or a nonprofit income earning activity, is a strong revenue driver, and (iii) the common good is its primary purpose.34

The term ‘social entrepreneur’ refers to the individual, and social enterprise to the organization or initiative. This section of the review describes the spectrum of organizational types and approaches within social enterprises, while the following section focuses primarily on the academic literature on social entrepreneurship.

The study of social enterprises and social entrepreneurship is relatively new, with much of the non-academic literature focusing on the same examples, most notably the Grameen Bank of Bangladesh35 in particular, and microfinance in general, as enterprises

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34 Social Enterprise Alliance: https://www.se-alliance.org/what-is-social-enterprise

35 The reputation of the Grameen Bank as a pioneer in the field of microfinance was cemented with the award of the 2006 Peace Prize to the Bank and its founder, Mohammad Yunus.
that have the potential to create social and economic value. There is a large literature on microfinance, which will not be reviewed here. Academic economists have written on the economics of microfinance, as well as conducted some of the earliest quantitative evaluations of the impact of microcredit on household consumption and other measures of well being (Pitt and Khandker 1998). Armendáriz and Murdoch (2010) provide a good overview of the economics and practice of microfinance, including a variety of examples from different countries. Although supporters of microfinance tout it as a powerful tool for poverty alleviation, recent work by academic economists evaluating the impact of microcredit on consumption and a variety of development outcomes does not support this claim (see e.g., Duflo et al 2013).

One way to map the space that social enterprises inhabit is to first define the spectrum of practitioners from nonprofit to for profit. Traditional, purely philanthropic non-governmental, nonprofit organizations (NGOs) are mission-driven, have as their primary goal the creation of social value, and are required by law or organizational policy to direct any profits to their mission. On the other end of the spectrum, traditional for-profit firms are market driven, pursue the creation of economic value, and distribute earnings to owners and shareholders. The range in between includes social enterprises in a variety of forms: from nonprofit enterprises to socially responsible businesses. To different extents, all social enterprises are both mission and market driven, create social and economic value, and--depending on their organizational form--may reinvest profits in mission activities, retain them for business development and growth, or redistribute a portion to owners (Dees 2001).

The conceptualization of social enterprises as having a ‘double bottom line’, social (including environmental) and economic, or creating ‘blended value,’ is not necessarily new. These ideas have been applied to for profit enterprises in the management literature. In particular, they have been applied to corporate social responsibility initiatives and social investing, in which firms pursue some combination of financial, social and environmental returns. Emerson (2003) argues that the rise of CSR, social investing, social enterprises, and sustainable economic development are all part
of a social move towards a broad conceptualization of value that includes multiple bottom lines, and one that requires new measurement and assessment tools (see e.g., for more on blended value see Dees 1998 HBR article and Emerson 2003).

This highlights the difficulty of rigorously defining social enterprises. It is not sufficient to refer to a double (or triple) bottom line, or to blended value. CSR and socially responsible investing are not considered social enterprises, nor are traditional NGOs, even if they engage in some earned-income activities, such as cost recovery (which typically includes fee-for-service, paid training, fees for special events or conferences) or another source of earned income, such as membership dues or publications sales. Socially responsible businesses, on the other hand, may be considered social enterprises. These are for profit companies that operate with dual objectives of making a profit for shareholders and making a social contribution, and often incorporate social goals into their corporate missions36 However, the line between corporate social responsibility and social enterprise in these cases is not completely clear, so scholars have argued each case must be considered individually (Alter 2003; Young 2001).

An early Harvard Business Review article by Dees (1998) introduces the social enterprise concept, and outlines potential drawbacks of what he calls the “commercialization” of social programs, starting with mission drift: seizing market opportunities may draw the organization away from its social mission. Moreover, social and financial goals may not always align, and this can be exacerbated by cultural clashes between staff with a social or nonprofit background and staff from the business or for profit sector. Finally, organizations with a social mission that engage in commercial ventures may also face political backlash, resistance from for profit competitors, and commercial activities may change their relationship with beneficiaries of social programs (Dees 1998).

36 Examples from the U.S. include The Body Shop, Ben and Jerry’s, and Green Mountain Coffee Roasters (Alter 2003, IADB)
Within social enterprises, that is, non-governmental organizations that generate commercial revenue to fund social programs, there are distinctions made based on mission orientation or purpose. A mission-centric enterprise is created to advance the mission using a financially self-sufficient model. The organization’s clients are also beneficiaries, as is the case with microfinance institutions. A mission-related enterprise treats the business activity as a source of profit to subsidize programs and/or the organization. Income comes from activities related to the mission, such as offering fee-based services to program participants, such as a childcare center for self-employed women who are part of a women’s economic development organization. Finally, some social enterprises may engage in income earning activities unrelated to their mission, leveraging organizational assets to generate revenue. Examples include renting organization-owned real estate to commercial or residential tenants, or product sales, such as museum gift shops (Alter 2003:13).

These distinctions lead to the categorization of social enterprises as embedded, integrated, or complementary. Embedded social enterprises are typically mission-centric; that is, social programs and economic activities are unified; thus, income-generating activities are central to the organization’s social mission. Integrated social enterprises are typically mission-related, in that there is some overlap between programmatic and enterprise activities, and in many cases the income generating activities are mission expanding or mission enhancing. Finally, complementary social enterprises engage in business activities that are separate from the organization’s social programs, but provide financial support to the organization37 (Ibid).

In 2009, the Social Enterprise Alliance joined with Community Wealth Ventures and Duke University’s Fuqua School of Business to survey social enterprises in the United States and Canada. They document a steady growth in social enterprises since

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37 For a description of different operational models associated with each category (i.e., embedded social enterprises may follow an entrepreneurial support, market intermediary, employment, or fee-for-service operational model), as well as examples of social enterprises in Latin America, see Kim (2003).
the 1970s, with rapid growth in the 1990s and first half of 2000s. Most respondent organizations (60 percent) operate their social enterprise as a division or subsidiary of the larger organization, and more than half (55 percent) operate two or more social enterprises (Community Wealth Ventures et al 2009). Although the literature suggests a growth of social enterprises at the global level, surveys like this one are not readily available for other countries or regions.

Much of the literature on social enterprises consists of descriptive articles defining social enterprises (e.g., Young 2001) and examples or case studies (Community Wealth Ventures et al 2009; Schorr 2006; Alter 2002). More recent articles have examined the emergence of social enterprises in other institutional and cultural contexts (e.g., Zhao 2012 on social enterprises in China), and some have started to theorize this organizational form. For example, Gonin et al (2012) explore how four organizational theories—paradox, stakeholder theory, organizational identity, and institutional theory—address the tensions between social and business objectives.

The literature on social entrepreneurship has been characterized in a similar way, and the line between research on social enterprises and social entrepreneurship is not always clear. The following section focuses primarily on the academic research on social entrepreneurship, the individuals and the process, rather than the organizations themselves.

**Social Entrepreneurship**

In recent years, there have been a number of reviews of the literature on social entrepreneurship (Dacin et al 2011; Dacin et al 2010; Mair 2010; Mair and Marti 2006; Short et al 2009). From the reviews, several common characterizations emerge. There is a consensus that the literature on social entrepreneurship is in its infancy, and therefore still largely focused on definitional issues (Peredo and McLean 2006; Mair and Marti 2006), with a majority of conceptual, rather than empirical, research (Dacin et al 2011). The reviews also highlight the absence of a consensus around the definition of social entrepreneurship (Short et al 2009; Dacin et al 2010; Dacin et al 2011). Mair (2010)
argues that the lack of consensus around defining and operationalizing social entrepreneurship is made more challenging by the fact that the literatures it engages, entrepreneurship theory and nonprofit management, largely lack theoretical consensus themselves.

The reviewers also cite a preponderance of single case studies. For example, Mair and Marti (2009) examine institutional voids using a case study from rural Bangladesh, Perrini et al (2010) is based on an in-depth longitudinal case study from Italy, and Tracey and Jarvis (2007) apply resource scarcity theory and agency theory—used to understand business franchising—to a social franchise in the United Kingdom. A few papers incorporate multiple case studies. Sharir and Lerner (2006) conducted a qualitative field study of 33 social ventures in Israel established in the 1990s, in order to identify common variables associated with success. Weerawardena and Mort’s (2006) analysis is based on nine in-depth case studies of social entrepreneurial nonprofit organizations in Australia.

There are few systematic comparisons of case studies, with Alvord et al (2004) and Shaw and Carter (2007) cited as exceptions. The study by Alvord et al systematically compares seven case studies of social entrepreneurship that have been widely recognized as successful. The case studies are well-known examples from different regions and periods of time: Bangladesh’s BRAC and Grameen Bank, India’s SEWA, Plan Puebla in Mexico, the Green Belt Movement in Kenya, Se Servir de la Saison Sèche en Savane et au Sahel in West Africa, and the Highlander Research and Education Center in the United States. For their part, Shaw and Carter’s (2007) analysis is based on in-depth interviews with 80 social entrepreneurs in the U.K. that compares similarities and differences between social and business entrepreneurs.

Existing reviews also highlight an absence of theory to ground the analysis, and a lack of quantitative data and methods of analysis. Exceptions include Peredo and Chrisman (2006), who extend social entrepreneurship research to community-based enterprises (CBEs), and propose a theoretical model of the determinants, characteristics, and consequences of CBEs. Tracy and Jarvis (2007) also develop a theoretical
framework, in their case to examine the differences between social franchises and business franchises. Finally, Murphy and Coombes (2009) posit a model of social entrepreneurial discovery in which opportunities are a function of both mobilization and timing. For applications of institutional theory, see Mair and Marti (2009); Townsend and Hart (2008), and Sud et al (2008); Tracey et al (2009); Battilana and Dorado (2010).

The first two critiques may be related to the nascent nature of this field of inquiry—over time, one would expect to see more scholars engage in systematic analyses and evolve from conceptual to empirical analyses. However, the last critique—an absence of quantitative data and methods—highlights what appears to be a conceptual difference between the academic work on social entrepreneurship, and the actual practice of it.

After reading the non-academic and academic literature on social entrepreneurship, there appears to be a gap between the definition of a social entrepreneur by practitioners and foundations, and the definition of social entrepreneurship by academics. Specifically, practitioners and funders appear to view social entrepreneurs primarily as social innovators, not necessarily as (socially responsible) business leaders. And in spite of the lack of consensus in the conceptualization of social entrepreneurship by academics, there is a fair amount of agreement around the dual nature—social and economic—of social entrepreneurship itself.

To be fair, the most salient examples in the popular literature and press coverage of social entrepreneurship are enterprises with a dual bottom-line, including the Grameen Bank of Bangladesh and the Aravind Eye Care Hospital network in India. But setting aside these widely cited examples, it becomes less clear how much social entrepreneurship—defined as the creation of social enterprises with a dual bottom line—is actually taking place, and therefore, how feasible it would be to collect a large
scale dataset conducive to statistical analysis. The absence of quantitative data may thus be a reflection of the nascent but limited practice of social entrepreneurship itself, rather than a failure of the academic community to collect quantitative data on, and apply statistical methods to this topic.

The practice of social entrepreneurship has been shaped or dominated by a few actors. Prominent individual advocates include Bill Drayton, founder and Chair of Ashoka, and Jeffrey Skoll, eBay's first president and full-time employee, and more recently, founder and Chair of the Skoll Foundation. Institutional funders and supporters, both in the U.S. and other regions, include Ashoka, Echoing Green, the Skoll Foundation, the Aspen Institute, and the Schwab Foundation for Social Entrepreneurship (Dacin et al 2011). Both Ashoka and Echoing Green fund for-profit ventures, hybrid organizations (for-profit and nonprofit), as well as nonprofits. The Omidyar Network, founded by eBay's Pierre Omidyar and his wife Pam, also funds both for-profit companies and nonprofit organizations that advance its mission. Even the Schwab Foundation, which seems to place a greater emphasis on financial value creation relative to other institutional supporters, defines social entrepreneurs as “focused foremost on social and/or ecological value creation…often using market principles and forces”. In general, institutional funders highlight the crucial role of social innovation that leads to large-scale change, rather than the income earning aspect of social entrepreneurship. Perhaps one of the challenges facing scholars defining and theorizing social enterprises and entrepreneurs is that, in practice, the boundaries around them appear to be quite fluid.

38 For example, Fast Company magazine’s “social capitalist awards” feature “social entrepreneurs who are changing the world,” but mostly include innovative nonprofit organizations (see e.g.: http://www.fastcompany.com/social/2008).
39 As evidenced by the profiles of fellows and organizations they fund. See descriptions of Echoing Green funded ventures: http://www.echoinggreen.org/fellows and criteria for Ashoka fellows: https://www.ashoka.org/support/criteria.
40 See http://www.omidyar.com/about_us
41 As per their definition of a social entrepreneur (the emphasis is my own): http://www.schwabfound.org/content/what-social-entrepreneur
A useful framework to understand the variety of ways in which social entrepreneurship has been defined in the academic literature is Mair’s 2010 review article. She starts by recognizing the broad nature of the concept, and its contributions to different domains, including business models with and for low-income populations, relating to the business at the base of the pyramid (BOP) concept (Seelos and Mair 2007); contributions to finance such as social stock markets, socially responsible investing, and the creation of new asset classes (Emerson 2003); and in philanthropy, a shift towards strategic and impact orientation inspired by social entrepreneurs (Letts and Ryan 2003).

Mair’s (2010) categorization of the actors and practices featured under the umbrella of social entrepreneurship includes individuals, communities, organizations, processes and technology, and even social movements (Mair and Marti 2006). In her view, social entrepreneurship may involve individuals or collective actors, addressing opportunities to fulfill local basic needs. Individuals may fit into the category of ‘social change agents’ (Waddock and Post 1991; Drayton 2002) or ‘institutional entrepreneurs,’ which also includes organizations that alter social arrangements hampering development (Mair and Marti 2009; Marti and Mair 2009). Peredo and Chrisman (2006) feature the community as the entrepreneurial actor and beneficiary. Organizations include social enterprises (Dorado 2006; Sharir and Lerner 2006), entrepreneurial non-profit organizations (Fowler 2002; Frumkin 2002), and cooperatives (Borzaga and Defourny 2001). Finally, Mair includes a category for social innovation, defined as processes and technology used for social good (Alvord, Brown and Letts 2004; Phillips Deiglmeier and Miller 2008). Regardless of the category, Mair characterizes social entrepreneurship as a “context-specific, local phenomenon,” with the local context shaping both the opportunities available and the strategies used (Mair 2010: 4).

Scholars of both business and social entrepreneurship include the ability to identify and seize opportunities as a key characteristic of entrepreneurs (Short et al
Howard Stevenson, a leading theorist of entrepreneurship at Harvard Business School, defines the heart of entrepreneurial management as “the pursuit of opportunity without regard to current resources controlled.” Stevenson finds that entrepreneurs see and pursue opportunities that elude other managers. Moreover, instead of limiting their options according to their initial resources, they mobilize the resources of others to reach their goals (Dees et al 2001: 4). In addition to being opportunity-oriented, other individual characteristics attributed to both business and social entrepreneurs include being innovative, resourceful, and value-creating change agents (Dees et al 2001).

Along the same lines, Martin and Osberg (2007) define all entrepreneurs as demonstrating courage to bear the burden of risk and failure, and having the fortitude to overcome barriers and setbacks.

So what distinguishes social and business entrepreneurs? According to Dacin et al (2011), definitions of social entrepreneurship focus on four key factors: (i) characteristics of individual social entrepreneurs, (ii) their sphere of operation, (iii) the processes and resources, and (iv) the mission of the social entrepreneur (Dees 1998; Light 2006, 2009; Mair and Marti 2006; Martin and Osberg 2007). However, the common factor across most definitions of social entrepreneurship relates to mission or value proposition. Social entrepreneurs “set out with an explicit social mission in mind” (Dees et al 2001: 5). The social entrepreneur aims for value in the form of large scale, transformational social change for the population or a large segment of the population. This does not rule out the provision of market based goods or services that generate revenue, but “what distinguishes social entrepreneurship is the primacy of social benefit…the pursuit of ‘mission-related impact’” (Martin and Osberg 2007).

Consistent with this focus on mission, Dacin et al.’s (2010) review of social entrepreneurship definitions concludes that a focus on the mission of the social entrepreneur, rather than individual level characteristics, processes or activities, holds the most promise for the field. Like others, they argue social entrepreneurs balance

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42 Short et al (2010) review the concept of opportunity in the overall entrepreneurship literature.
social and economic priorities, with primacy for social value creation. However, a focus on mission as the key point of departure between business and social entrepreneur leaves an obvious gap: the difference between social and financial returns. In contrast to business entrepreneurs, social entrepreneurs do not get market feedback on their social value proposition (Dees et al 2001).

This crucial distinction—the role of markets in general, and market failures in particular—is still largely missing from or underemphasized by much of the existing social entrepreneurship literature. For example, although Martin and Osberg’s (2007) definition of business and social entrepreneurship includes the existence of an ‘unsatisfactory’ or ‘suboptimal’ equilibrium, they don’t explicitly link suboptimal outcomes for social entrepreneurs to market failures for goods with positive externalities, a characteristic of many goods and services traditionally provided by governments or the nonprofit sector. A mathematical model of CSR by David P. Baron (2005) includes both social and financial returns for social entrepreneurs, and illustrates how social entrepreneurs may form a firm that practices CSR at a financial loss, but does not explicitly address market failures as a result of externalities.

In contrast, the article by Austin et al (2006) exploring the differences between social and commercial entrepreneurship lists market failure as the first of four theoretical propositions to guide the comparison. Specifically, they relate market failures to differences in the opportunity set of social and commercial entrepreneurs (Austin et al 2006: 3). In addition, they recognize the implications this has for access to capital markets, and link it to fundamental differences in mobilizing financial and human resources (Ibid). The article goes on to draw out the implications of these differences for opportunity, context, people and resources, and deals. Finally, it lays out the implications for future research, including questions about the role of markets and market failure in the formation and behavior of social enterprises. In my reading of the literature, this is an underexplored aspect of social entrepreneurship, and incorporating economic theory on market failures could help clarify the conditions under which social innovation can lead to economic value and financial gain.
Corporate Philanthropy as Corporate Social Responsibility

Corporate philanthropy has been studied as part of Corporate Social Responsibility (CSR). Consistent with the evolution in the conceptualization of philanthropy as investment, the academic study of corporate philanthropy has also evolved to include all socially responsible practices of firms, including but not limited to corporate foundations, donations, or other firm specific philanthropic practices. Not surprisingly, the corporate social responsibility dimension of philanthropy is by far the most widely published literature within management and administration journals.

CSR is also a widely used concept outside of academia, including a number of global initiatives of multilateral institutions and nonprofit organizations. Global, non-academic initiatives related to CSR include the Global Reporting Initiative (GRI), World Resources Institute (WRI), AccountAbility, International Standards Organization (ISO 14000), and the United Nations. Definitions of CSR from non-academic sources include environmental practices, trade practices (including fair trade), corporate governance, and responsible investment.

Although a large literature, CSR has been defined in many different ways, and continues to evolve both in its conceptualization and operationalization since Caroll’s (1979) seminal article. Godfrey, Hatch, and Hansen (2010) characterize CSR as a “tortured concept, both theoretically and empirically” (Godfrey et al 2010: 316). In spite of the abundant literature, it is still a contested term in that there are a number of alternative definitions at the theoretical level, and there is still a lively debate around both the term’s meaning and its implications for practice (Ibid). An article by Carroll (1999) reviews and discusses more than 25 different definitions of CSR in the academic literature. A widely used definition is that posited by McWilliams and Siegel (2001), in

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43 This literature is vast, and this section only provides a brief overview.
which CSR is “an action that appears to further some social good, extends beyond the explicit interests of the firm, and is not required by law” (PP?). More recently, Aguinis (2011) defines CSR as “context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance.” (PP).

The literature on CSR can be characterized as addressing two big questions: (i) What is the impact of CSR? In particular, what is the relationship between CSR and firm financial performance?, and (ii) What are the determinants of CSR? As the literature has evolved, the questions around CSR have gotten more nuanced, and CSR has been broadened to Corporate Social Performance (CSP). Another concept that has emerged in the literature is the idea of corporate citizenship, which is related but distinct from CSR or CSP. Scholars distinguish between the two concepts by defining corporate citizenship as the philosophy or orientation driving involvement in social issues, while CSR consists of “specific actions, policies or activities that execute the commitment or make real the philosophy” (Godfrey et al 2008: 319).

The early empirical literature on CSR (1980s) was focused almost exclusively on the relationship between CSR and corporate financial performance (Aupperle et al 1985; Ullmann 1985). Aupperle et al’s (1985) seminal article on the relationship between CSR and profitability found a positive relationship between the two. Subsequent to these early findings, the literature attempts to disentangle the direction of causality: does CSR lead to better financial performance, or are firms with better financial performance in a stronger position to invest in CSR? For example, McGuire et al (1988) find that prior financial performance is more closely associated with CSR than subsequent financial performance, consistent with the idea that the direction of causality runs from firm financial performance to CSR, and not the other way around. Williams and Siegel (2000) find a neutral relationship between CSR and financial performance after “correcting” for a common misspecification in previous studies.

There have been a number of reviews of this question—the relationship between profitability and CSR—in the literature. The results are mixed. Margolis and Walsh
(2001) review over 90 empirical studies on the link between CSR and firm financial performance, and find inconclusive evidence on this relationship. In spite of the mixed empirical evidence for market outcomes of CSR (see also Margolis and Walsh 2003; Vogel 2005; Orlitzky et al 2003; Peloza 2009), over time a growing number of institutional investors and shareholders have bought into the idea that strategic adoption of CSR can lead to financial rewards in the long run (Lee 2008).

The second big question in the CSR literature revolves around the determinants or drivers of CSR. Although different theoretical frameworks have been used to examine this question, stakeholder theory has played an important role in the CSR literature (e.g., Godfrey et al 2010; Hillman and Keim 2001). In this theoretical framework, stakeholders are those individuals or groups who may affect or are affected by the organization (Freeman 1984, 1994). In addition to shareholders, stakeholders include employees, consumers, government, and other organizations or groups such as suppliers, trade unions, business associates and even competitors (Mullins, 2002).

The relationship between CSR and strategy was made more explicit by a series of articles in the late 1990s and early 2000s (see Hart 1997; Kotler and Lee 2005; Porter and Kramer 2002, 2006, 2011). Moreover, aggregation of socially responsible behaviors into global constructs such as CSP (Corporate social performance) (Wood, 1991) was done in order to be able to examine how a firm’s overall social involvement impacts managers and stakeholders. This construct also allows for empirical work with data sets that aggregate firm social performance, including Fortune rankings (1980sand 1990s). For example, Graves and Waddock (1994) examine the relationship between institutional ownership and CSP. The definitions of CSR also get more nuanced: Godfrey et al (2008) reconceptualize CSR into a number of discrete corporate social responsibilities (CSRs), each of which can have a positive or negative social impact, and each of which has an endogenous managerially driven component and an exogenous stakeholder-driven component.

In a review of the evolution of the conceptualization of CSR by Lee (2008), he argues that there have been two broad shifts in conceptualization of CSR since its
earliest days: (i) the level of analysis has changed from discussion of social or macro level effects to organizational level analysis, and (ii) there has been a shift from studies that are explicitly normative and ethics oriented (in which CSR is explicitly linked to morality), to implicitly normative and performance-oriented (Lee 2008: 54).

A recent comprehensive review by Aguinis and Glavas (2012) goes further to organize the CSR literature into three levels of analysis: institutional, organizational and individual. They find that more than half (57%) of all articles reviewed focused on the organizational level, a third on the institutional level, and fewer focused on individual level analysis or two or more levels (4 and 5 percent, respectively). Therefore, they identify the need for multilevel research on CSR as one of the lessons of their extensive review (Aguinis and Glavas 2012: 934). The following section follows the structure of the review by Aguinis and Glavas, breaking down the literature by level of analysis. For a detailed listing of papers in each of the categories proposed by the authors, refer to Tables 3-5 in the paper.

The review is also organized around four aspects of CSR: predictors, outcomes, mediators, and moderators. It confirms that most of the literature on CSR has focused on predictors—antecedents of CSR initiatives—or outcomes resulting from those initiatives. Fewer articles have focused on what they call mediators, defined as “the variables that explain the underlying processes and mechanisms of why CSR initiatives are related to an outcome”, and/or moderators, defined as “the conditions under which CSR initiatives influence outcomes” (Ibid).

At the institutional level, stakeholder theory is important as a framework to explain CSR initiatives. Overall, it is clear that the actions and influence of stakeholders are an important predictor of CSR actions and policies, affecting both whether firms choose to engage in CSR, and the types of CSR initiatives implemented (see e.g., Sharma and Henriques 2005; Stevens et al 2005). Stakeholders can be shareholders (David et al 2007), consumers (Christmann and Taylor 2006; Sen and Bhattacharya 2001), the media (Davidson and Worrell 1988; Weaver et al 1999), local communities (Marquis et al 2007), and interest groups (Greening and Gray 1994).
According to Aguilera et al (2007), stakeholders attempt to influence firms to engage in CSR for reasons that are instrumental (self-interested), relational (based on concerns with relationships among group members), and/or moral (i.e., based on ethical standards and moral principles). It appears that stakeholders apply pressure to firms by taking actions that impact potential revenues, resources, and the reputation of the firm (Aguinis and Glavas 2012).

Institutional forces including regulation, standards, and certification also affect whether, how, and how much firms engage in CSR. That being said, the literature suggests that these institutional forces may lead to CSR initiatives that are symbolic, rather than genuine. Although firms appear to be engaged in CSR, the initiatives are primarily intended to appease stakeholder demands or meet the minimum requirements of standards (see Tenbrunsel et al 2000). On regulation see also Fineman and Clarke 1996, standards and certification see Christmann and Taylor 2006.

Firms that engage in CSR are likely to improve their reputations, customer loyalty, and evaluations of products. This relationship between CSR and outcomes is strengthened by the power and legitimacy of stakeholders, and the presence of increased regulation (these would be what Aguinis and Glavas 2008 call mediators). A consistent finding regarding the institutional-level outcomes of CSR initiatives is an improvement in a firm’s reputation (Brammer and Pavelin 2006; Verschoor 1998; Waddock and Graves 1997).

At the organizational level, a predictor of CSR is the perception that it is good for business, and likely to increase competitiveness (Bansal and Roth 2000) and legitimacy (Sharma 2000). Firms may also be motivated by a sense of responsibility and duty, following a higher order or morals (Aguilera et al 2007), and a sense of stewardship (Davis et al 1997). Relevant firm-specific variables that are positively associated with CSR include: (i) alignment of CSR with firm mission and values (Bansal 2003; Maignan et al 1999; Marcus and Anderson 2006), (ii) long-term institutional ownership (Neubaum and Zahra 2006), and (iii) top management equity (Johnson and Greening 1999). Corporate governance structures may also play a role. For example,
Johnson and Greening (1999) found that the inclusion of outside directors broadened the focus of the firm to go beyond the exclusive interest of shareholders.

According to the review by Aguinis and Glavas (2008), there is a small but positive relationship between CSR actions and policies and financial outcomes. There are also nonfinancial outcomes that result from CSR, including improved management practices (Waddock and Graves 1997), product quality (Johnson and Greening 1999), operational efficiencies (Greening and Turban 2000; Sharma and Vredenbug 1998), attractiveness to investors (Graves and Waddock 1994), and increased diversity as measured by the presence of women and ethnic minorities (Johnson and Greening 1999). The relationship between CSR and these outcomes is strengthened with high visibility and exposure, and with company size (Aguinis and Glavas 2008).

Only a small subset of CSR research has focused on the individual level of analysis, but they find that personal values and supervisor behavior are important determinants of CSR. Commitment from supervisors to CSR is an important predictor of CSR engagement (e.g., Greening and Gray 1994; Muller and Kolk 2010; Weaver et al 1999a, 1999b). Studies by Weaver et al (1999a, 1999b) found that organizations that carry out CSR initiatives in response to outside pressures, without management commitment, are not connected to an overall corporate strategy or related to the firm’s core business.

Supervisor commitment to CSR is an important determinant, and is influenced by supervisors’ values, including how closely aligned individual values are with organizational values (Bansal, 2003). Other predictors of individual commitment to CSR include awareness of CSR guidelines (Weaver et al 1999b), and CSR training (Stevens et al 2005). The literature at the individual level of analysis has also explored how employee psychological needs drive engagement in CSR (Aguilera et al 2007).

At the individual level, involvement in CSR activities and policies has a positive association with employee performance, behaviors, and attitudes. Specifically, CSR increases employee engagement (Glavas and Piderit 2009), identification with the firm (Carmeli et al 2007), Organizational Citizenship Behaviors (Jones 2010; Lin et al 2010),
retention, in-role performance (Jones 2010), and commitment (Maignan et al 1999). CSR also increases firm attractiveness to prospective employees (Turban and Greening 1997). The relationship between CSR and individual outcomes are mediated by followers’ perceptions of visionary leadership, organizational identity, and organizational pride. The relationship between CSR and individual outcomes was strengthened with increases in a supervisor’s commitment to ethics (Muller and Kolk 2010), managers’ equity sensitivity (Mudrack et al 1999), individual employee discretion (Bansal 2003), and salience of issues to employees (Bansal and Roth 2000).

Other literature reviews on CSR include Waddock (2004), who explored the operationalization of CSR, differences, and overlaps between CSR and similar constructs, Wood (2010) reviewed the literature on how to measure CSR, and Peloza and Shang (2011) conducted a review of how CSR can create value for stakeholders. In addition, other reviews of the CSR literature have focused on specific disciplines such as marketing (Enderle and Murphy 2009; Maignan and Ferrell 2004); organizational behavior (OB) and industrial and organizational (I-O) psychology (Aguinis, 2011); operations (Brammer et al 2011); and information systems (Elliot 2011). For a historical review, see Carroll, 2008 (Aguinis and Glavas 2012: 934).

Leadership and Philanthropy

There is not necessarily a literature on leadership and philanthropy per se. Rather, this section further develops some findings from the previous sections, and links them to the leadership literature within management. It is an attempt to address the question of whether there is a link between leadership and philanthropy, and specifically, whether the act or practice of giving is leadership enhancing.

The previous section examined the impact of Corporate Social Responsibility at the organizational and individual employee level, with a variety of potential benefits from CSR, both at the organizational and individual level. As stated previously, involvement in CSR activities and policies has a positive impact on employee performance, behaviors, and attitudes. CSR increases employee engagement,
identification with the firm, organizational citizenship behaviors (OCB), retention, in-role performance, and commitment. These outcomes are strengthened by followers’ perceptions of visionary leadership, organizational identity, and organizational pride (Aguinis and Glavas 2012; and see previous section for details on specific articles).

There appears, therefore, to be a link between corporate philanthropy—or at least the more broadly defined Corporate Social Responsibility—and positive outcomes for employees and the firm. Further, the relationship between CSR and positive outcomes is influenced by supervisors’ values, attitudes and behaviors.

Perhaps it would be useful to first define organizational citizenship behaviors (OCB), to better understand the potential link with leadership and/or philanthropy. A review of the theoretical and empirical literature on OCB (Podsakoff et al 2000) uses the definition of organizational citizenship behaviors proposed by Organ (1988: 4): “individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization. By discretionary, we mean that the behavior is not an enforceable requirement of the role or the job description, that is, the clearly specifiable terms of the person’s employment contract with the organization; the behavior is rather a matter of personal choice, such that its omission is not generally understood as punishable.”

The review distinguishes between different types of citizenship behavior, while recognizing significant conceptual overlap between them: (i) Helping Behavior, which involves voluntarily helping others with, or preventing, work-related problems; (ii) Sportsmanship, which refers to the willingness to sacrifice their personal interest for the good of the work group, as maintain a positive attitude in the face of inevitable inconveniences and impositions of work; (iii) Organizational Loyalty includes promoting the organization to outsiders, and remaining committed to it under adverse conditions; (iv) Organizational Compliance includes internalization and acceptance of the organization’s rules, regulations and procedures, with adherence to them in the absence of monitoring; (v) Individual Initiative refers to engaging in task-related behaviors beyond those required or even expected for the job, and includes
innovations that improve individual and/or organizational performance, and volunteering to take on additional responsibilities; (vi) Civic Virtue represents a commitment to the organization as a whole, and includes looking out for the organization’s best interest even at personal cost; finally, (vii) Self Development consists of voluntary behaviors to improve knowledge, skills, and abilities. Of all types, helping behavior and organizational compliance appear to be the most examined forms of citizenship behaviors in the literature (Podsakoff et al 2000: 516-525).

The main determinants or antecedents in the literature are employee morale or job attitudes, task characteristics, and a various types of leader behavior. What does this actually mean? Employee morale includes employee satisfaction, organizational commitment, perceptions of fairness, and perceptions of leader supportiveness. That raises the question of the determinants of these feelings and perceptions in the first place. For example, both role ambiguity and role conflict are known to affect employee satisfaction, and are also negatively correlated with some dimensions of OCBs (altruism, courtesy, sportsmanship). In terms of “task characteristics”, the results are not surprising: task feedback and intrinsically satisfying tasks are positively related to OCBs, while the relationship with task routinization is negative (Ibid: 526-532).

What is clear from the literature is that leaders play a key role in influencing citizenship behavior. The literature on organizational citizenship and prosocial behaviors suggests a positive impact of empathic leadership, and/or an empathic organizational culture on organizations, by promoting prosocial and “good citizen” behaviors among employees.

The relationship between individual philanthropy and leadership is less clear. The question has not been posed in this way in the management literature, perhaps opening a space for future research. If individuals who are more empathic are more

44 Adam Grant has worked extensively on this topic. For an accessible overview of his work see: http://www.nytimes.com/2013/03/31/magazine/is-giving-the-secret-to-getting-ahead.html?pagewanted=all
likely to be philanthropists and better leaders, then there is no causal link between philanthropy and leadership. Rather, both are manifestations of an underlying empathic individual.

Establishing a causal link between empathic leadership and philanthropy assumes that empathy and altruism are linked. Some scholars have argued that philanthropy is distinct from altruism (e.g., Khalil 2004), but most scholars of charitable giving characterize philanthropy as altruistic behavior. In a broad review of research on altruism (Piliavin and Charng 1990), empirical studies consistently support a causal link between empathy and prosocial behavior, as well as a link between empathy and altruism (Ibid: 36-37).

One important question is whether altruism can be acquired or developed, or whether it is a fixed personality trait, that is, some individuals are more altruistic than others. For a review of the psychological theories of the development of altruism, see Sharabany and Bar-Tal (1982). If the practice of philanthropy leads individuals to the development of empathy, it could have a causal impact on leadership quality as well.
REFERENCES PART I


REFERENCES PART II


