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Research

How to Survive the Recession

By Alana Conner

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518 Memorial Way, Stanford, CA 94305-5015
Ph: 650-725-5399. Fax: 650-723-0516
Email: info@ssireview.com, **www.ssireview.com**

By Alana Conner

DEVELOPMENT

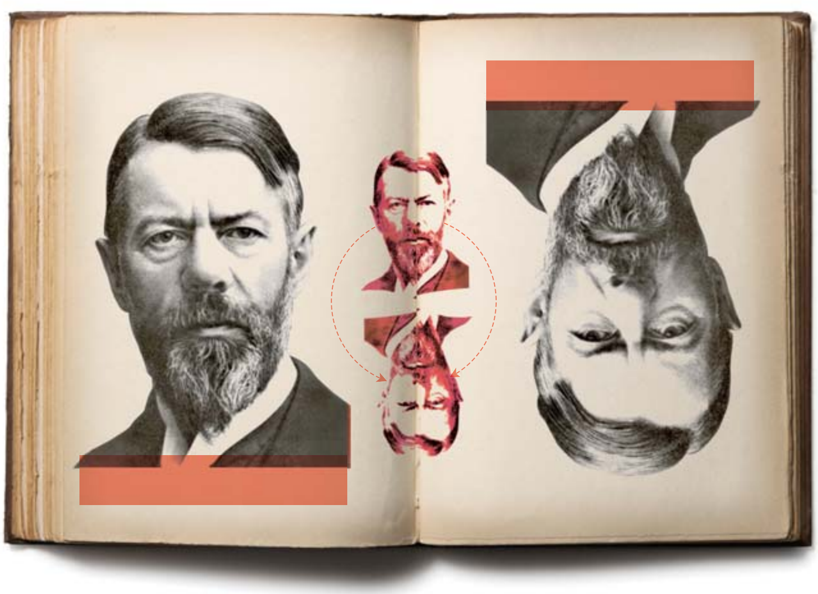
It's Not About the Work Ethic

▶ In 1517, a German priest named Martin Luther sparked the Protestant Reformation when he nailed his *Ninety-Five Theses* to a church door in Wittenberg, Germany. Since that time, regions that adopted Protestantism have grown more affluent than did regions that maintained their Catholic roots—a trend that another German, the sociologist Max Weber, attempted to explain in 1905. In his classic work *The Protestant Ethic and the Spirit of Capitalism*, Weber contends that Protestants' harder-working ways are responsible for their greater wealth.

But a recent article by two German economists challenges Weber's venerable theory. "Protestants started education efforts earlier than Catholics," notes Sascha O. Becker, a professor of economics at the University of Stirling (Scotland) and the study's lead author. Over time, it was this jump on schooling, not a religion-driven love of labor, that ultimately drove Protestants' higher productivity.

"Researchers have long known that education matters for prosperity and well-being," says Becker. "Education helps you to get a better understanding of how the world works, helps you go beyond subsistence to do bigger things."

Luther was big on education. Opposing the Catholic practice of relying on priests to read and interpret the Latin Bible, Luther insisted that people read and interpret the Good Book for themselves—a feat that required Bibles in local languages and an elementary education. To these ends, Luther translated the Bible into German, encouraged towns to build schools, and urged parents to educate their children.



In contrast, Weber did not have much to say about education. Instead, he linked the greater economic development of Protestants to their belief that every person has a calling—a God-selected job whose profitable performance both attracts and indicates God's favor. To signal to other mortals that they are among God's chosen people, the theory says, Protestants work harder, save more, and therefore accumulate greater wealth.

"I never knew what to make of the Protestant work ethic," Becker admits. "How do you measure it? Is it how many hours people work? The way they work? It's an elusive concept."

To test the more modern idea that education, not ethics, fueled Protestants' financial success, the coauthors mined data from Weber's day for the 426 counties within Prussia (much of which is modern-day Germany). By using county-level data, the researchers avoided confounding religion with geography, politics, and other social institutions. They first showed that the higher the percentage of Protestants in a county, the greater its literacy rates. They next revealed that more Protestant areas were also wealthier—a pattern that persists to this day. Finally, they demonstrated that differences in literacy could explain the differences in the wealth of counties.

"But these were not differences that education couldn't overcome," says Becker. "When we compared Protestant regions to Catholic regions that for some historic reason ended up with the same level of education"—say, areas such as Münster, where Jesuits pushed education during Germany's Counter-Reformation—"the two regions had no difference in economic success."

"And so education matters a lot in economic development," says Becker. Attempting to synthesize his message with Weber's, he concludes, "If anything, the Protestant work ethic makes people think ahead and realize that they need to educate themselves." ■

Sascha O. Becker and Ludger Woessmann, "Was Weber Wrong? A Human Capital Theory of Protestant Economic History," *The Quarterly Journal of Economics*, May 2009.

SOCIAL ENTREPRENEURSHIP

How to Survive the Recession

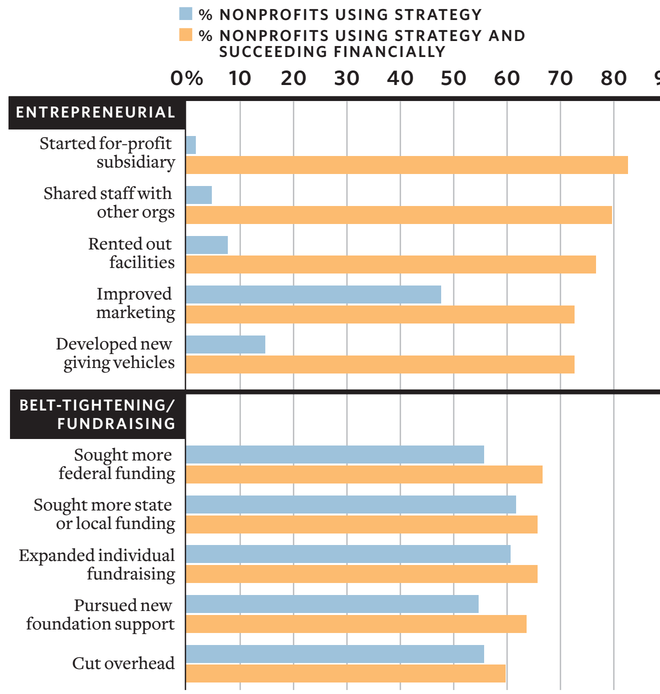
▶ "We got hit really bad last year," says Richard Rose, the producing artistic director of the Barter Theatre in Abingdon, Va. One of the nation's longest-running professional theaters, the Barter launched the careers of actors such as Gregory Peck, Kevin Spacey, and Patricia Neal. Despite its rich history and successful track record, "we probably lost about $550,000 on a $6 million budget last year," says Rose. "For 2009, we cut our budget back by a million dollars."

The current recession has left few nonprofits unscathed and has hit theaters particularly hard, reports the most recent communiqué from the Johns Hopkins University Listening Post Project. "But

PHOTOILLUSTRATION BY DANIEL FAZER, BOOK PHOTO BY ISTOCKPHOTO nonprofits are responding with incredible courage, creativity, and conviction," says Lester M. Salamon, lead author of the communiqué and director of the Center for Civil Society Studies at Johns Hopkins University, which guides the projects.

To take the temperature of the U.S. nonprofit sector, the Listening Post Project regularly surveys more than 1,400 local nonprofits. In its most recent survey, the project found that 83 percent of its 363 respondents were feeling some financial pinch, with close to 40 percent describing their stress as "severe" or "very severe." A "perfect storm" of declining revenues, increased costs, shrinking endowments, and reduced cash flows is to blame for their financial discomfort, write Salamon and his coauthors.

Yet by deploying smart coping strategies such as conservative financial management, intensified fundraising, belt-tightening measures, and entrepreneurial expansion, almost three-fourths of the nonprofits in the Listening Post study have been able to maintain or actually increase the number of people they serve. Of these coping strategies, says Salamon, entrepreneurial expansion tends to be the least used but most successful. As the figure at right shows, for example, few nonprofits undertook such entrepreneurial feats as starting a for-profit subsidiary, sharing staff with other organizations, or renting out their facilities. But those that did experienced greater financial success than did organizations that stuck to more tried-and-true belt-tightening and fundraising strategies.



The Barter Theatre, for instance, is using several entrepreneurial strategies to weather the recession. "Our budget is about 80 percent earned income because we're in a region that is so remote and not wealthy, with no big corporate sponsors," Rose explains. "And so we are forced to earn our way."

To this end, the organization is launching a national tour of its production of *Of Mice and Men*, which is expected to bring in $600,000 in 2009, says Rose. The theater has also adjusted its offerings to the changing mood and makeup of its audience. "From the standpoint of programming, we went for what I call 'comfort food,'" he says. "And we're actually having a record season. We're doing *The Wizard of Oz*, which we would normally stay away from. We usually appeal to adults, not families, and we do theater that's a little more challenging. But we knew we would be relying on local audiences rather than tourists." The theater is also avoiding more depressing productions, says Rose: "If you are having a tough life," as people are during this recession, "you want to escape it in the theater."

The theater's need to earn revenue may actually protect it from the recession, suggests Salamon: "Fundraising strategies that involve commercial income are better than charitable income."

Despite its uptick in activity, the theater has had to make some difficult sacrifices. "We had to cut half a dozen personnel, and we're also using fewer freelancers," says Rose. "And so a lot of us are working a lot harder."

Although cutting back on staff and staff time may be a good coping strategy in the short term, says Salamon, "I'm not sure that I would recommend it for the long term." More generally, he says, "while nonprofits have been able to protect clientele and continue services [during the downturn], we are at real risk of pushing organizations beyond the breaking point." ■

Lester M. Salamon, Stephanie L. Geller, and Kasey L. Spence, "Impact of the 2007-09 Economic Recession on Nonprofit Organizations," Johns Hopkins University Center for Civil Society Studies, Listening Post Project Communique No. 14, 2009.

HUMAN RIGHTS

Why They Stayed

▶ When Hurricane Katrina hit the Gulf Coast in late August 2005, Nicole M. Stephens didn't think the media, government officials, or even relief workers understood the plight of the people left behind. "The question everyone asked was, 'Why did those crazy people *choose* to stay?'" says Stephens. She also noticed that no one actually bothered to ask this question of the so-called stayers.

As a graduate student in psychology at Stanford University, though, Stephens decided to ask the stayers herself. In her new study of the stayers, the leavers who evacuated, the aid workers who helped both groups, and the lay observers who watched from a distance, she and her coauthors reveal that the stayers did not think they had a choice, because they did not have the resources to get away.

Yet the stayers did not see themselves as passive victims, either. Instead, "they viewed themselves as being strong, actively helping each other, being connected to others, and showing their faith in God," finds Stephens. Meanwhile, however, "many observers and relief workers thought that the stayers were just being foolish and lazy, and so tended to blame them for their suffering," she says.

Stephens and her coauthors tie the widespread empathy failure to deeper cultural and material differences between the mostly black and working-class stayers on the one hand, and the mostly white and middle-class leavers, aid workers, and observers on the other hand. Compared to the stayers, the leavers, aid workers, and observers have more education and income, greater access to news, more reliable transportation, and wider-ranging social networks. Reflecting their greater resources, these wealthier Americans generally believe that the right way to act is to be an influencer—that is, to make choices, to exert control, and, when necessary, to seek more hospitable situations.

Meanwhile, reflecting their more modest endowments, the stayers generally believe that the right way to act is to be an *adjuster*—that is, to draw upon their inner strength, to reach out to others and God, and to make the best of bad situations.

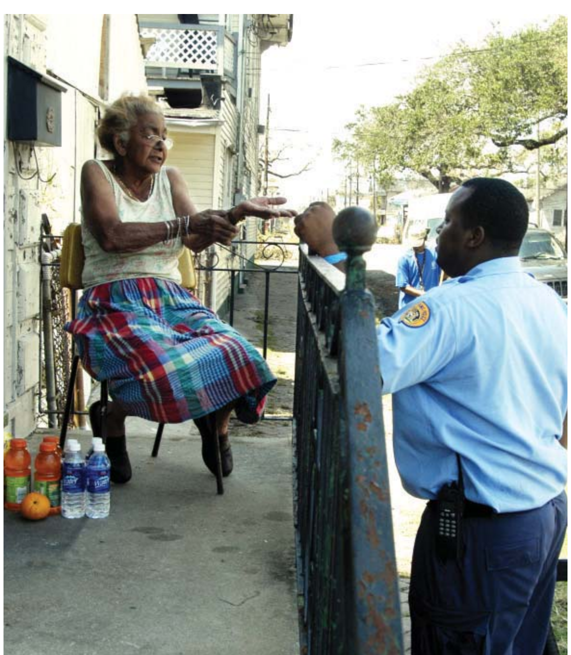
"The assumption among the rescuers and observers is that everyone could have chosen to evacuate," says Stephens. "But you need a lot of resources to be that kind of person."

For their research, Stephens and her team first asked 144 Katrina aid workers (including Red Cross volunteers, police officers, and FEMA officials) and 317 online survey respondents to use three words to describe leavers and three words to describe stayers. In a second interview study, the researchers invited 38 leavers and 41 stayers to describe what happened to them before, during, and after the storm. Assistants who were blind to the researchers' hypotheses then classified the participants' answers according to themes such as influencing, adjusting, and overall positive or negative tone.

Although rescue workers described stayers more positively than did lay observers, their responses were still quite negative, as well as different from how the stayers described themselves. "You might expect that people who volunteer or go into a helping profession would have more empathy and a better understanding of the people to whom they are giving aid," says Stephens.

"There was some percentage of the survey respondents who did use words like 'stupid,' 'passive,' and 'inflexible,'" acknowledges Russ Paulsen, executive director of the Hurricane Recovery Program at the American Red Cross. "But it wasn't clear to me that those were rescue workers. I've never heard a Red Crosser refer to people who stayed as stupid or any of those other adjectives. We do ask people to tell their Katrina stories as part of the healing process, but [whether they stayed or left] doesn't affect how we treat them." ■

Nicole M. Stephens, MarYam G. Hamedani, Hazel Rose Markus, Hilary B. Bergsieker, and Liyam Eloul, "Why Did They 'Choose' to Stay? Perspectives of Hurricane Katrina Observers and Survivors," *Psychological Science*, July 2009.



PHOTOGRAPH COURTESY OF FEMA/LIZ ROLL

New Orleans residents who weathered Katrina had a different understanding of their actions from that of rescuers.

SOCIAL RESPONSIBILITY

Diversity Brings the Dollars

▶ Guacamole Doritos, Wasabi Funyuns, and Mountain Dew Code Red (which is targeted to African-Americans) are three fruits of PepsiCo Inc.'s diversity initiatives. These initiatives, which include mentoring programs and support groups, attempt to harness employees' racial and ethnic heritages for competitive advantage. So far, the company's efforts seem to be paying off: For instance, PepsiCo attributed part of its 8 percent growth in 2004 revenues to its diversity programs, reports a Nov. 14, 2005, article in *The Wall Street Journal*.

Like PepsiCo, many other corporations have claimed that ethnically and sexually diverse workforces generate more creative ideas, tap into more markets, and develop better solutions than do more homogeneous ones.

But the plural of *anecdote* is not *data*, and so the business case for diversity has often foundered for want of systematic evidence.

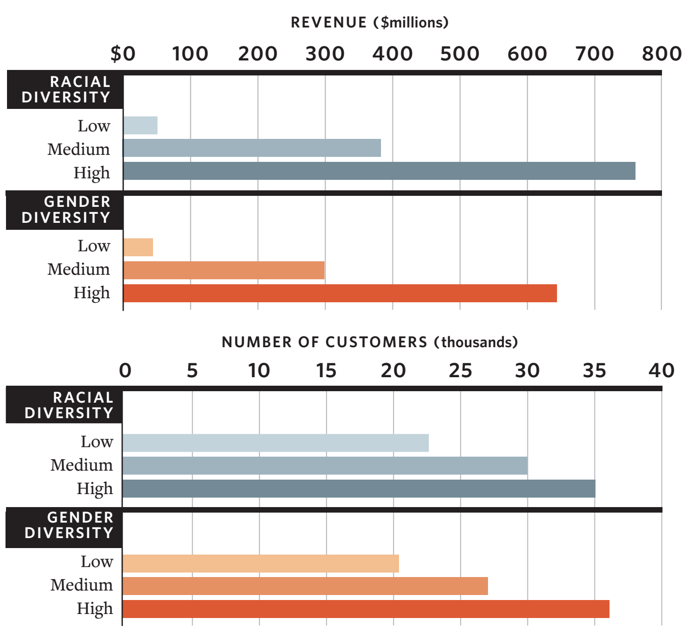
This summer, however, sociologist Cedric Herring crunched the numbers and discovered that, indeed, more diverse workplaces have higher revenues, more customers, larger market shares, and greater relative profits (see figures on page 11).

"What I've done is use real data from real organizations to document what people have speculated about for quite some time," says Herring, a professor at the University of Illinois at Chicago. Results like his are "the holy grail for people who care about the return on investment for diversity."

Herring's real data came from a nationally representative sample of 506 U.S. businesses that responded to the 1996-1997 National Organizations Survey. He first created indexes to capture the diversity of each business's workforce, and then classified businesses as low, medium, or high in racial and gender diversity. Next, he tested the relationship between levels of diversity and companies' self-reported sales revenues, numbers of customers, market shares, and profitability for the past two years.

Even after statistically controlling for businesses' legal form (proprietorship or corporation, for example), workforce size, organization age, industry, and region, Herring found that both racial and gender diversity still redound to the bottom line. He cautions, however, that his study does not establish that diversity *caused* the better business outcomes. "You need data over time to make the causal argument," he says. "But I do believe that that's the story."

With Corporate Diversity Come Dollars and Customers



Herring's study likewise did not test why diversity and corporate success are linked. Yet he ventures that diversity "allows companies to think outside the box by bringing previously excluded groups inside the box." Although the mixing of demographics might initially inspire some conflict and inefficiencies, "they're often worth it to get new ideas, better ways of thinking, and more productive practices."

In economic downturns, diversity programs are often among the first to get the ax. But this is "short-term thinking," says Herring. Instead, "organizations need to make that extra effort to recruit and retain all different kinds of people from different backgrounds" to tap into their talents and get an edge on competitors.

"Diversity is not just about protecting special classes of people," he adds. "It can be beneficial to the entire organization." ■

Cedric Herring, "Does Diversity Pay? Race, Gender, and the Business Case for Diversity," *American Sociological Review*, April 2009.

GOVERNMENT

Medicare Saves Lives

▶ For decades, Americans have squabbled over whether the government should expand Medicare, maintain its current scope, or cut it altogether. But their debates have suffered for lack of an answer to one vital question: Does Medicare make a difference?

A new study shows that Medicare indeed makes a difference for seriously ill patients—and that difference is the one between life and death. Following the fates of more than 400,000 people admitted to California hospitals through their emergency departments, a team of economists finds that patients who are just over 65 years old—and thus eligible for Medicare—are 20 percent less likely to die within a week of admission than are their slightly younger counterparts who do not yet qualify for the government insurance.

"Until this paper, no one thought that health insurance of any kind affected something as straightforward as death rates," says David Card, a professor of economics at the University of California, Berkeley, and the study's lead author. "Fact is, if you show up at the hospital without insurance, they'll take you in and give you fairly decent treatment."

But the Medicare-eligible set seems to get somewhat better treatment, Card and his colleagues find. Their study reveals that patients between 65 and 70 have more procedures and higher bills than do patients between 60 and 64, hinting that Medicare-aged patients are receiving more care. This closer attention may give Medicare recipients an edge on surviving their trip to the ER, Card says.

Card's study also suggests that Medicare recipients fare better than not only the uninsured, but also the privately insured. "A lot of people do not have very good insurance," he explains. In addition, hospital staff must sometimes waste valuable time untangling what exactly a particular insurance company will cover for a particular patient before delivering aid. "But hospitals don't have to call up to find out what Medicare can do," he notes.

For their study, Card and his coauthors took advantage of the fact that some 80 percent of Americans enroll in Medicare within a few days of their 65th birthdays. As a result, the researchers could apply a sophisticated statistical test that compares the outcomes of people on either side of the Medicare-age line—that is, people ages 60 to 64 vs. people ages 65 to 70.

To make sure that these two groups were equally sick, the researchers restricted their study to people who reported to hospital emergency departments with strokes, heart attacks, respiratory failure, and other life-threatening illnesses. "These events bring people to the ER regardless of their insurance coverage," Card says. The team then examined which of these very sick people survived a day, a week, a month, and other time intervals up to two years. Their findings demonstrate that even nine months later, 20 percent more Medicare-aged patients than younger patients were still alive. ■

David Card, Carlos Dobkin, and Nicole Maestas, "Does Medicare Save Lives?" *The Quarterly Journal of Economics*, May 2009.