

Research

Turning a Profit by Helping the Poor

By Jessica Ruvinsky

Stanford Social Innovation Review
Spring 2011

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BY JESSICA RUVINSKY

NONPROFIT MANAGEMENT

Combining Warmth and Competence

► Charles Best started DonorsChoose.org at the age of 24 out of his Bronx, N.Y., classroom. The website connects donors directly to classrooms in need: You give to a particular project—\$20 for art supplies, for example—and get back photos

was sold and asked consumers what they thought of Mozilla. “The same company framed as a dot-org is seen as warm and inspirational and significantly less competent and effective than its dot-com arm, which is seen as competent and effective but not warm or inspired,” says Jennifer Aaker, professor of marketing at the Stanford Graduate School of Business.

When Aaker and colleagues tried to sell participants a lap-

ing both perceptions are the companies that are winning right now with Millennials and with social media,” says Aaker. High-status partnerships help increase perceptions of competence, as does being seen as data driven.

Over at DonorsChoose.org, endorsements from *The Wall Street Journal*, NPR, and CNN adorn the home page. The nonprofit also measures and posts its impact daily in hard statistics—on dollars raised,

EDUCATION

Economic Influence

► Contributions from private foundations to finance education may soon outstrip official developmental assistance. This is presumably a good thing. It could help meet the \$16 billion global funding gap in primary education. And private foundations are politically neutral, faster, and farther-reaching than traditional government actors.

students reached, and economic need, as well as by subject, grade, and resource. After 10 years, DonorsChoose.org has raised more than \$72 million in donations and helped more than 4 million students. Best seems to have found that ideal combination of warmth and competence.

Or are they? During the last decade, non-state actors have become increasingly involved in international educational development, and large private foundations have emerged both in the West and the global South. Meanwhile, basic assumptions have gone unanalyzed, says Prachi Srivastava, assistant professor in the School of International Development & Global Studies at the University of Ottawa. Srivastava found in a literature review that private foundations are being idealized as neutral, efficient, and effective—but no one is actually monitoring their impact.

For one thing, private foundations are not neutral. They are often set up to promote certain values and aims. The Open Society Institute, for example, is a significant player in educational development with an explicitly political agenda, says Srivastava. Research in the 1970s and 1980s suggested that maintaining colonial control in Africa was an underlying motivation of the Phelps Stokes Fund.

One of the good things about private foundations is that they don’t have to go through official



A cheerleading squad from a Los Angeles middle school received a portable boombox through DonorsChoose.org.

and personal thank-you notes so you can see how students use your gift. The model is so touching and inspiring, it’s a wonder it has succeeded.

According to recent research, people tend to perceive organizations as being either warm or competent, not both—and they are much more likely to do business with the competent one. This is unfortunate for nonprofits, especially those that have services or wares to sell. Mozilla, the hybrid (nonprofit and for-profit) software organization that supports the Firefox web browser, makes a messenger bag. Researchers manipulated the site from which the bag

top bag from the eco-friendly marketplace World of Good, the potential buyers were less willing to turn their money over to the dot-org branch of the organization than to the dot-com one. This pattern reversed when participants saw a favorable review of the nonprofit organization from *The Wall Street Journal* (although not from the *Detroit Free Press*).

The trick, then, is to be seen as both warm and competent. “The companies that are cultivat-

“In general, the perception has always been that by being a nonprofit, there must be some ‘nons’: They’re not as capable or not as good,” says Robert Ottenhoff, president and CEO of GuideStar, which makes data on the efficiency and effectiveness of individual nonprofits available to the public. “Increasingly, I think that’s going to be the kind of question that nonprofits are going to have to answer: Yes, we’re capable. Yes, we have the capacity to do this. Yes, we can make a difference.” ■

Jennifer Aaker, Kathleen D. Vohs, and Cassie Mogliner, “Nonprofits Are Seen as Warm and For-Profits as Competent: Firm Stereotypes Matter,” *Journal of Consumer Research*, 37, 2010.

developmental assistance channels. This frees them up to act directly and quickly. It also means that they are not bound by international conventions. Citizens of developing countries can challenge the decisions of the U.S. Agency for International Development or the United Kingdom Department for International Development through the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action, and other means. Private foundations generally act outside that international structure. “They’re large concentrations of wealth, largely unaccountable to the public,” says Robert Arno, professor emeritus at the Indiana University School of Education, “and I think ultimately what they’re doing can be considered corrosive to democracy.”

Lack of centralized data and scholarly attention means that the evaluation of private foundations is left in their own hands. Can foundations replicate successes? Can they scale up? Do they reach the poorest of the poor? Are they more effective than government programs? “We just don’t know,” says Srivastava. The No. 1 recipient of grants from American foundations in 2008 wasn’t Uganda; it was Switzerland. Other top 20 recipients included England, Canada, Germany, Australia, and France. As to where that money goes after it reaches individual organizations, those data aren’t publicly available. And information on American private foundations is comparatively abundant, says Srivastava. “We don’t know *anything* about what’s happening with Indian foundations, or South African foundations, or Brazilian foundations.”

The people who started these foundations “get heard

quickly by governments, by U.N. organizations, and by large donors.” But concrete information is missing. Scholars should be listening, too. ■

Prachi Srivastava and Su-Ann Oh, “Private Foundations, Philanthropy, and Partnership in Education and Development: Mapping the Terrain,” *International Journal of Education and Development*, 30, 2010.

POVERTY

Welfare Works Better than Bootstraps

► Americans may have overthrown the monarchy and built the land of opportunity, but economic mobility is higher in Great Britain than in the United States. In Britain, the social safety net allows people who fall into poverty to pull themselves out. Americans who become poor are more likely to stay that way.

Research in the 1980s and 1990s showing that poverty was often short-term and not limited to an “underclass” helped motivate social policy shifts away from income redistribution. But it gradually became clear that this view of poverty as transient was partly a result of measurement error, says Peggy McDonough of the University of Toronto. “People over- or underestimate their income,” McDonough says. “Any time you ask people questions about income, the data you obtain are problematic.”

Using more recent statistical methods that take measurement error into account, McDonough and colleagues revealed a more stagnant picture. They looked at transitions into and out of poverty between 1993 and 2003 in the United States and Britain, which are similarly liberal welfare states. “Poverty persistence exists in both societies, but it is clearly more prevalent in the U.S.,” says McDonough. And the risk of staying poor is not equally distributed. Lack of education increases the risk of persistent poverty by 14 times in the United States, but by only 4.5 times in Britain. Not being white quadruples the risk of persistent poverty in the United States, and only doubles it in Britain.

The researchers credit British policy with the nation’s relative social mobility. “British social programs are associated with a 40 percent decline in the proportion of people who are persistently poor, compared to the United States, which has only a 3 percent drop,” says McDonough. “Britain’s stronger safety net, as well as their explicit commitment to reduce poverty, seems to have made a difference.

“I think it all comes down to how you as a society respond to

British Prime Minister David Cameron is cutting social program spending as part of his Big Society initiative.

those most vulnerable within it,” McDonough says. “Do you cut them loose and say: ‘You’re on your own—we did it, now you go do it, too?’ Or do you say ... we as a society are going to try to mitigate inequalities? It’s a choice of the society, and America has always been more individualistically based than other social democratic countries.”

The distinction may now be fading. Since the 2010 election, Britain “is making deep cuts to social program spending with the David Cameron government,” says McDonough. “It will be interesting to see whether persistent poverty increases in the coming years.” ■

Diana Worts, Amanda Sacker, and Peggy McDonough, “Falling Short of the Promise: Poverty Vulnerability in the United States and Britain, 1993-2003,” *American Journal of Sociology*, 116, 2010.

SOCIALLY RESPONSIBLE BUSINESS

Turning a Profit by Helping the Poor

► Politically radical social workers didn’t expect to be working in a bank any more than white-collar bankers expected to be holding meetings in a crowded public market. The microfinance loan officer is a unique sort of professional, and when commercial microfinance began, there weren’t any of them. New types of hybrid organizations always have to make up institutional culture from scratch. “When you don’t have a ready-to-wear model for how to function and you’re trying to combine these divergent logics, two key issues are ‘Who should you hire?’ and ‘How do you socialize them?’ to make money without losing track of the social mission,” says Julie Battilana, assistant professor



of business administration at Harvard Business School.

Two of the first social development NGOs to transition into commercial micro-finance organizations in the early 1990s—both in La Paz, Bolivia—handled the tension in different ways, and with differing success. At Banco Solidario (BancoSol), a visionary leader named Francisco “Pancho” Otero hired seasoned social workers and anthropologists, bankers and lawyers. He created a strong institutional culture around shared development goals that inspired deep commitment from employees. “His big mistake was thinking that would be enough,” says Silvia Dorado-Banacloche, a professor of entrepreneurial management and law at the University of Rhode Island who conducted extensive interviews during

BancoSol’s transition period. Otero believed that “by becoming a commercial bank the only thing that changes is the back office.” But BancoSol’s identity soon began to split. Social workers accused bankers of hindering development activities with their nitpicky rules and procedures; bankers considered social workers “dangerous idealists.” The schism paralyzed the bank, which recovered only after it replaced most of the development-oriented staff.

Caja de Ahorro y Prestamo Los Andes saw what was happening at BancoSol and took a different approach. The bank hired recent college graduates and molded them into employees who could pursue development and banking objectives. The extensive training slowed the bank’s growth, but Los Andes maintained a commit-

ment to its hybrid mission and even tackled the notoriously difficult agricultural market.

BancoSol eventually adopted some of Los Andes’ hiring and socialization practices. “I think if you were one of the social worker diehards, you might say the bankers won; but I think the bankers would say we’re very different bankers,” says Michael Chu, former chair of BancoSol. The conflict between profit and social impact “is a tension that can be resolved,” he says.

How? “Any organization that is doing well by doing good will be served by trying to develop their own people,” says Dorado-Banacloche. “It is very important to translate lofty visions into measurable goals.” ■

Julie Battilana and Silvia Dorado-Banacloche, “Building Sustainable Hybrid Organizations: The Case of Commercial Microfinance Organizations,” *Academy of Management Journal*, February 2010.

CIVIL SOCIETY

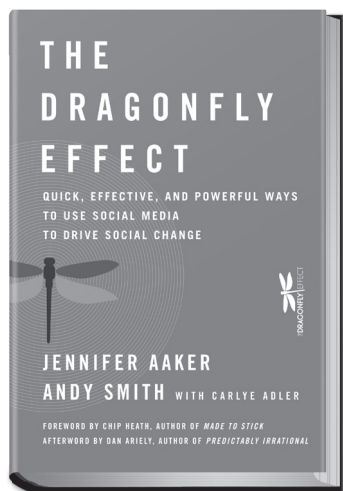
Online Gaming Is the New Bowling League

▶ Video games are good for you—and good for democracy, too. With all the talk of violence, addiction, and isolation, such an idea is not intuitive. But a recent study showed that online game communities provide access to social capital. “Online gaming has a positive effect not only on each gamer’s life, but also on society as a whole,” says Tetsuro Kobayashi, a social psychologist at the National Institute of Informatics in Tokyo.

“Online game players have been seen as nerds or socially less skilled, lonely people,” says Kobayashi. This seemed strange to him, since gamers who have

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never met face-to-face manage all the communication, cooperation, and teamwork it takes to form clans and coordinate a castle siege. So in 2003 Kobayashi launched a series of surveys of Japanese players of Lineage, a massive multiplayer online role-playing game (MMORPG). Game participants come together online as knights, wizards, elves, and princes to battle ferocious monsters and, incidentally, to chat about whatever is on their minds: family problems, sexual issues, discrimination, or the latest drama at work.

Because these groups coalesce around a single interest—the game—they tend to be more socially and demographically diverse than real-life communities. Kobayashi surveyed perceived differences in gender, age, occupation, residential area, way of thinking, lifestyle in offline world, and opinions about world events. Whereas membership in community groups tends to be bonding because of physical proximity and shared values, such real-life groups also carry the risk of becoming exclusionary. On the other hand, social capital in online gaming communities, Kobayashi found, is bridging: It puts players in touch with a broad range of people; the game can thus increase their everyday social tolerance.

“Playing online games could bring positive social consequences,” says Cuihua Shen, assistant professor in the Emerging Media and Communication program at the University of Texas at Dallas, who was not involved in the research. “You have the opportunity to interact with people who are very different from yourself, people who you would never talk to in real life.”

If you learn to put up with

interpersonal differences to battle monsters, that tolerance can carry over offline. Players become more accepting of others’ values and lifestyles, “which is essential in democratic society,” says Kobayashi.

Of course, online gamers aren’t playing to improve themselves or society. But could MMORPGs be designed to save the world? The World Bank Institute developed one, called Evoke, to empower players (especially in Africa) to solve global problems, such as hunger, poverty, disease, war and oppression, water access, education, and climate change. [See “Game-Changers of the World, Unite,” *Stanford Social Innovation Review*, summer 2010.] According to game designer Jane McGonigal, slaying those real dragons would take about 21 billion hours a week of online gameplay. ■

Tetsuro Kobayashi, “Bridging Social Capital in Online Communities: Heterogeneity and Social Tolerance of Online Game Players in Japan,” *Human Communication Research*, 36, 2010.

FUNDRAISING

Money Makes People Stingy

► The more you have, the less you give. According to a 2002 Independent Sector survey, households earning more than \$100,000 a year contributed only 2.7 percent of their income to charity, while those earning less than \$25,000 gave a more generous 4.2 percent. New research shows that’s no accident. “The more money a person makes or has, the less generous, helpful, compassionate, and charitable he is toward other people,” says Paul Piff, a doctoral candidate in social and personality psychology at the University of California, Berkeley.

Piff started out by noticing



“I contributed a lot to charity when I thought I was going to die.”

that rich people are generally ruder. When he videotaped them in the lab as they got to know a stranger, people who had identified themselves as having more “would check their cell phones ... or doodle without establishing eye contact. Whereas the individuals who identified themselves as having less, were more engaged: They would establish eye contact, they’d laugh more, they’d nod,” Piff says. There seemed to be basic differences in the level of social engagement and concern for others. So Piff and colleagues designed a series of experiments.

Given \$10 worth of points and asked how much of it they wanted to share, rich people were less generous than poor people. In a trust game, they were less egalitarian and cooperative. To a latecomer to Piff’s lab, they were less helpful. This was true of those who reported higher incomes and those who came from wealthier families, but the researchers found that even when a subject felt temporarily higher ranking, it caused him to be less charitable.

So are the rich monsters? No, says Piff. They are just insulated. When he showed participants a short, compassion-inducing

video about child poverty, the upper-class individuals became as empathetic as the lower.

This finding does not surprise Mark Kramer, managing director of FSG Social Impact Consultants. “We did a study for the Gates Foundation trying to look at what distinguishes high-impact donors,” he says. “What we found was that at some point, the donors who were highly effective had a firsthand experience where they directly encountered an issue of real urgency.”

Some nonprofits create such encounters on purpose. The Boston Foundation walks people through dangerous inner-city neighborhoods at night; the experience lends more immediacy to problems than does reading crime stats in the local paper.

Maybe that’s all it takes to make a wealthy donor as generous as a poor one. “Giving is emotionally driven more than rationally driven,” says Kramer. He advises nonprofits to “try to give donors firsthand experiences of the issues that they’re raising money to help solve.” ■

Paul K. Piff, Michael Kraus, Stéphane Côté, et al., “Having Less, Giving More: The Influence of Social Class on Prosocial Behavior,” *Journal of Personality and Social Psychology*, 99, 2010.