ENTREPRENEURIALISM AND PHILANTHROPY

Christopher Baker: Asia-Pacific Centre For Social Investment And Philanthropy, Hawthorn, Australia
Michael Moran: Asia-Pacific Centre For Social Investment And Philanthropy, Hawthorn, Australia

Contact: Christopher Baker, Asia-Pacific Centre for Social Investment and Philanthropy, Faculty of Business and Enterprise, Swinburne University of Tech, PO Box 218, 3122 Hawthorn, Australia, (T) +61 3 9214 8088, Email: chbaker@swin.edu.au

ABSTRACT

There has been little scholarly investigation into the relative propensity for entrepreneurs to participate in philanthropic endeavour, and whether entrepreneurs are inclined to adopt particular forms or approaches to their philanthropy. This article explores the extent to which extant international literature on giving by the wealthy has acknowledged and explored entrepreneurialism as influencing the propensity of the wealthy to give, and the extent to which it impacts on the nature of that giving. The authors conclude that there is a need for specific research into entrepreneurialism and philanthropy, and that such research needs to be sensitive to the national peculiarities of political, cultural and regulatory contexts.

INTRODUCTION

The ability of successful entrepreneurs to generate considerable wealth is manifest. As such, their capacity to contribute from their resources to projects and organisations with a specific social enhancement agenda is also apparent. This potential for successful entrepreneurs to enhance the quality of the society or societies in which they live and to become role models of philanthropic endeavour is exemplified by the recent commitments of two of the most high profile and successful entrepreneurs in the United States, Bill Gates and Warren Buffet. There has however been little scholarly investigation into the relative propensity for entrepreneurs to participate in philanthropic endeavour, and whether entrepreneurs are inclined to adopt particular forms or approaches to their philanthropy. This article explores the extent to which extant international literature on giving by the wealthy has acknowledged and explored entrepreneurialism as influencing the propensity of the wealthy to give, and the extent to which it impacts on the nature of that giving, what Frumkin (2006) has termed “giving styles”.

Given the paucity of literature directly addressing entrepreneurialism and philanthropy, this article begins with an exploration of key contextual issues. It first addresses wealth and the place of entrepreneurs in order to provide a foundation for understanding some of the particular attitudinal influences on entrepreneurs to the wealth they generate. It then examines the literature on characteristics of risk, attitudes to saving, and perceptions of financial security that influence entrepreneurial behaviours. This article then looks at aspects of the history of entrepreneurial philanthropy, particularly in the United States (US), and at emerging forms of giving which are associated with entrepreneurial skills and approaches such as the strategic and venture paradigms. The authors note that the majority of the literature on entrepreneurs and giving is generated in the US where the history, culture and taxation of giving by the wealthy in particular are specific to that nation and therefore US related research findings may not be directly transferable to other nations. The authors conclude that in order to inform public policy settings in relation to charitable giving there is a need for specific research into entrepreneurialism and philanthropy, and that such research needs to be sensitive to the national peculiarities of political, cultural and regulatory contexts.
WEALTH AND ENTREPRENEURS

While giving by entrepreneurs in particular has not received a great deal of scholarly attention to date, giving by the wealthy more broadly has been the subject of analysis. Paul Schervish, a leading theorist in the field of philanthropy studies, pays little regard to the source of wealth where he argues (2003) that while people are generous across the economic spectrum, because a disproportionately large share of assets is held by the wealthy few, in practice the greatest volume and value of charitable gifts will inevitably come from high net worth individuals. Entrepreneurs do constitute a significant proportion of the wealthy. On a global level, the 2006 World Wealth Report (Cap Gemini Merrill Lynch 2006: 19) estimated the top three sources of wealth for the world’s high net worth individuals to be: i) business ownership or the sale of a business (entrepreneurs) 37%; ii) income 24%; and iii) inheritance 18%. Earned wealth was reported to have grown much faster than inherited wealth, with the percentage of High Net Worth (HNW) individuals whose wealth was inherited decreasing from 2001 to 2006: in North America from 21% to 16%; and in Europe from 37% to 19%. The dominance of earned wealth as the primary wealth source is also apparent at ultra wealthy end of the spectrum where entrepreneurs are particularly well represented (Quadrini 1999; Cagetti and De Nardi 2008). In the United Kingdom (UK), the Sunday Times Rich List (2009) reported that while in 1989 three quarters of the list of the most wealthy 1,000 individuals or families in the UK had inherited their wealth, by 2009 the tables had been turned with the proportion that had created their own wealth increasing to three quarters.

It is important to note however that while there is a tendency to think of wealth to be either inherited or generated by entrepreneurial activity, the very high earnings levels of senior executives over recent decades produces a share of the very wealthy whose wealth is derived from those earnings. In the United States and other English speaking countries the increasing representation of executives amongst top income earners has been a characteristic of the 20th century which has gained additional momentum in recent decades (Piketty and Saez 2006). A local illustration of the exponential growth in top salary-earner income is that from 1992 to 2002 the remuneration of a typical executive in Australia's top 50 companies increased from 27 times the wage of an average worker to 98 times (Atkinson and Leigh 2006).

Using data from the Panel Study of Income Dynamics and the Survey of Consumer Finances in the United States, Quadrini (1999; 2000) has identified higher patterns of wealth generation and accumulation amongst entrepreneurial households. The three main factors identified as contributing to these heightened wealth accumulation tendencies amongst entrepreneurs are: i) the incentive to save the funds required to undertake entrepreneurial activity; ii) the incentive to avoid the costs of financial intermediation; and iii) “ uninsurable entrepreneurial risk” (Quadrini 2000: 34). This risk factor is identified as a consequence of the high degree of income uncertainty associated with entrepreneurial choices relative to salaried occupations, and a consequential desire to save more for precautionary motives. This incentive to save more as a result of what Cagetti and De Nardi have alternatively described as the “additional risk associated with being an entrepreneur” (2008: 296), is over and above the earlier finding of Cagetti (2003) that precaution is the major motivation in general for wealth accumulation early in life.

The importance of precautionary motivations and higher savings patterns for entrepreneurial wealth accumulators points to a potential (though untested) correlation with research which suggests that a sense of financial security is a major influence over the propensity to gift personal funds for public good. Giving by the wealthy in particular has been found consistently to be influenced by the individual’s self-perception of economic and financial security (Lloyd 2004; Rooney, Frederick et al. 2006; 2007). As Schervish observes, the subjective measurement of personal financial status is assessed by individuals with reference to both their financial base and their aspirations “relative to subjective values and norms and in view of comparative assessments with their reference groups” (Schervish 2003: 10).

In the 2005 Bank of America Study of High Net-Worth Philanthropy more than 50% of respondents indicated they would give more if they felt “more financially secure” (Rooney, Frederick et al. 2006: 7). The findings in relation to the entrepreneurs amongst the respondents (those having fifty percent or more of their net worth in entrepreneurial assets) include that HNW entrepreneurs have statistically significantly more wealth than other HNW households and that entrepreneurs have a higher sense of financial security (Rooney, Frederick et al. 2007: 52). Despite this, the entrepreneurial respondents were also more likely than others to indicate they would increase their giving if they felt “more” financially secure. This study is one of very few that does provide a comparison of giving by entrepreneurial households. It finds that in 2005 Entrepreneurial households gave on average nearly
twice as much to charity as other wealthy households, $232,206 : $120,651, which was a statistically significant positive difference ($p<.001$).

A subsequent study also undertaken by Rooney and colleagues (Rooney, Osili et al. 2009) also finds that the source of wealth has a significant impact on giving. In 2007, on average those who had generated their wealth through entrepreneurial endeavour gave far more to charity than those HNW American households, which inherited their wealth or earned it in other ways. Entrepreneurial households (where half or more of their net worth comes from a family-owned business or a start-up company) gave most on average ($248,871) in contrast to households where half or more of their net worth came from growth of investment assets, which gave least on average ($35,680), as illustrated in Figure 1.

Figure 1: Average aggregate giving by primary source of net worth, 2007 ($)

Source: Rooney, Osili et al. 2009: 34

The Bank of America studies led by Rooney provide rare insight into comparative High Net Worth charitable giving by source of wealth. These studies indicate that entrepreneurs are relatively generous, by a considerable measure. They do not, however, speculate on whether the means by which wealth is generated influences the type of giving the entrepreneur engages in. Other media, consulting and academic studies posit that entrepreneurs have a preference for emerging styles of giving such as venture philanthropy in which there is a highly augmented pattern of interaction between the donor (or “investor”) and the recipient (or “investee”). As with broader of studies of the association between wealth generation and scale of philanthropic giving, there is limited research on the relationship between the source of wealth and giving styles. In Australia, such information is essentially nonexistent.

GIVING BY THE WEALTHY

Those with the greatest financial resources have the greatest capacity to give charitably. In the United States researchers have demonstrated a strong correlation between wealth and charitable giving (Clotfelter 1985; Auten and Rudney 1987; Schervish 2003; James and Sharpe 2007). The analysis by Schervish (2003) of the share of all charitable giving by US households, as summarised at Table 1, indicates that 5 per cent of households account for 45 per cent of all charitable dollars given. In a further subdivision of that 5 per cent of US households, Schervish found that the top 1 per cent account for nearly a quarter (23%) of all charitable dollars. The relative contribution of large scale givers is
highlighted even more in a further breakdown of donors, revealing that just 0.2 per cent of US households provide 13 per cent of all donated dollars.

<table>
<thead>
<tr>
<th>Table 1: US charitable giving by household</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of US Households (overlapping)</td>
</tr>
<tr>
<td>0.2%</td>
</tr>
<tr>
<td>1%</td>
</tr>
<tr>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Schervish 2003: 7

A practical framework for an overview and analysis of research related to charitable giving by the wealthy per se is provided by the three major characteristics of private giving by the wealthy in the United States as identified by Theresa Lloyd (Lloyd 2004): targeted taxation benefits; antipathy to the state having a primary role in the provision of welfare; and as an integral and defining element of the elite culture in the United States.

Targeted taxation benefits: Tax benefits have been shown to have a “potent effect” (Clotfelter 2002: 14) on charitable giving in general in the US. Researchers (Schervish and Havens 2001; Joulfaian 2005) have also shown that as a result of relative taxation benefits, the very wealthy are inclined to make charitable gifts from their estates in preference to during their lifetimes. Schervish and Havens (2001: 98) identify tax incentives for charitable giving as one of the major influences of estate planning for the wealthy. The 112 families surveyed (with estates of $5 million or more) indicated they “expect” on average that 37 per cent of their estate will go in taxes, 47 per cent will be gifted to heirs and 16 per cent to charities. These same wealthy individuals indicated they would prefer to pay less of their gross estate in tax, and consequently to redistribute the resultant additional wealth between their heirs and charities. It is significant that while Schervish & Havens do not emphasise this aspect, the preferred redistribution of estate assets away from taxes is nevertheless weighted more in favour of heirs than of charities, as summarised in Table 2.

<table>
<thead>
<tr>
<th>Table 2: HNWI wealth transfer expectations and preferences in the US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiary</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Heirs</td>
</tr>
<tr>
<td>Charities</td>
</tr>
<tr>
<td>Taxes</td>
</tr>
</tbody>
</table>

Source: Schervish & Havens 2001: 98

The strength of the sentiments summarised above (Table 2) is indicative of both the attractiveness of tax benefits and of the broadly and deeply held aversion in the US to paying taxes to the state.

Antipathy to state role: Beckert (2008) characterises this US quality of antipathy to the state role in welfare provision as “radically individualistic” and describes this approach as normatively grounded in the notion that individuals know much better than the state how their wealth can be put to the best possible use for the common good. As Beckert observes, such an approach puts what constitutes common good entirely at the donor’s discretion.

Others (Odendahl 1990; Ostrander 2007) have interpreted this aspect of giving by the wealthy in the US as a means of securing and maintaining privilege and control. Odendahl (1990) finds that
the US millionaires she interviewed placed a high value on wanting to maintain control over the disposition of their money rather than providing it directly to the government. She argues that the philanthropic elite use their giving to exercise power and to retain control of key social spending initiatives. Her argument (1990) that contemporary American philanthropy is fundamentally a self-serving and self-perpetuating system by which the wealthy exercise social control and help themselves more than others is paralleled by findings in the late 1980s that fewer than 10 per cent of US philanthropic giving is directed at those with less access to resources than the donor/s (Ostrander 1989: 221).

Schervish on the other hand identifies this propensity to influence and control as “hyperagency” (Schervish 1997; Schervish 2008): the combination of psychological and material capacity to not just contribute to or support causes, but to relatively single-handedly produce new philanthropic organisations or new direction in existing ones. In this way, Schervish’s conceptualisation of the “hyperagency” of philanthropists is closely aligned with Shane’s articulation of entrepreneurship as “an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes, and raw materials through organizing efforts that previously had not existed” (Shane 2003: 4). While entrepreneurship has tended to be framed as profit seeking, and with a tendency towards cutting corners (Barendsen and Gardner 2004), this has been challenged by more recent application of the term to social entrepreneurs (Martin and Osberg 2007; Zahra, Gedajlovic et al. 2009; Defourny and Nyssens 2010) to those involved with initiatives aimed at generating social wealth.

Nevertheless differences in language used to characterise HNW giving, highlight how similar traits can be interpreted and represented in different ways. While to a degree Odendahl’s interpretation of her interview data serves to validate a class-based ideological animosity towards the wealthy, her analysis does provide a contrast to many other studies of philanthropic values and behaviours. Her highly critical perspective is at odds with Schervish and with much of the commissioned and non-academic literature associated with fundraising and wealth management, which tends to incorporate a sympathetic bias reflecting an agenda to encourage more charitable giving by more of the wealthy.

**Elite Culture:** The importance of peers is also integral to the findings of the English sociologist Theresa Lloyd (2004) who identified charitable giving as an integral and defining element of the elite culture in the US. The importance of charitable giving to elite culture in the US has also been identified by American researchers (Odendahl 1987; Ostrower 1995; Schervish and Havens 1997). In her groundbreaking study of elite philanthropy in New York, Ostrower (1995) finds wealthy donors to be generally focused on their peers as the audience for their philanthropy. The cultural interplay for wealthy New Yorkers demonstrates the point that obligations are most strongly felt where the ties are strongest. It is these people who provide the normative framework and the associated sanctions and rewards that are most powerful. In a network, or a social circle where there is a strong expectation that those with wealth give, then those who are concerned with securing and retaining membership of that network participate in (expected) philanthropic giving. Ostrower observes “philanthropy is as much about the idea that individuals should “do their share” to support the organisations from which they benefit as it is about giving to others” (1995: 8).

More than 80 per cent of Ostrower’s respondents (all active philanthropists) agreed that for the wealthy, philanthropy is an obligation. Ostrower also notes that specific interpretations of “obligation” varied among individuals and particular charitable traditions from tzedaka in the Jewish tradition (a Hebrew term that means justice rather than charity and is therefore considered an obligation) through to the more secular notion of “giving back”. Similarly, in interviews with wealthy donors Schervish, O’Herlihy et al. (2001) find that while these individuals see themselves as in control and as primarily responsible for their own success, they acknowledge the contribution of others and report a strong sense of obligation to give back amongst wealthy Americans. This sense of obligation on the wealthy to give back a share of earned wealth to society holds sway throughout the US to such an extent that it has been characterised as an implicit social contract (Acs and Desai 2007).

**AUSTRALIA**

In Australia, there is no comparable expectation that those with the greatest capacity will give. Australian-based research indicates that in relative terms the wealthy in Australia are considerably less generous than their US counterparts (Tracey and Baker 2004; Tracey 2005). Unlike in the US where many services are provided by way of private funds, in Australia the provision of most social and community services are regarded fundamentally as a normal and expected function of government. In addition, the difference in scale between the economies and the level of wealth in the US and Australia
make it possible for wealthy donors in the US, individually and in aggregate, to allocate very large sums of money to charitable purposes. The framework identified by Lloyd (2004) as characteristic of giving by the wealthy in the US (targeted taxation benefits; antipathy to the state having a primary role in the provision of welfare; and giving as a defining element of the elite culture) does not have the same relevance in the Australian context. Of the three, only the attraction of targeted taxation benefits is applicable in the Australian context, and then only in relation to *inter vivos* giving.

Targeted taxation benefits do apply in Australia to *inter vivos* charitable giving, however in the absence of estate/inheritance taxes in Australia there is also an absence of taxation incentives for *post mortem* charitable giving. In relation to *inter vivos* charitable giving, only higher deductible amounts tend to be claimed and the wealthy are more likely to claim eligible donations (Giving Australia 2005). Madden and Scaife (2008) observe that it is unsurprising that wealthy Australians are more likely to claim their eligible gifts, given firstly that the wealthy are more likely to use professional support to prepare their tax returns and secondly that the size of gifts by the wealthy (where made) may often be larger.

Findings drawing on data from the height of the economic boom in Australia indicate that *inter vivos* charitable giving by wealthy Australians did not keep pace with the substantial increases in personal wealth that had been characteristic of the previous decade (Madden & Scaife 2008). Australian Taxation Office data shows that in 2005 approximately two thirds of individual Australians with a taxable income of one million dollars or more were participating in charitable giving, as measured by tax deductible donations made and claimed (McGregor-Lowndes & Newton 2007). Madden and Scaife (2008) note the very high probability that all individuals earning a taxable income of one million dollars or more will take professional advice on the preparation of their tax returns. In accordance with their fiduciary duties, the advisers will seek to ensure that any tax-deductible donations made are claimed. The data indicates that approximately one in three Australians earning a taxable income of one million dollars or more in 2005 did not make any tax-deductible gifts.

The extent to which charitable giving is incorporated into the normative expectations of Australian society as a whole is indicated by the estimated participation rate of adult Australians of 87% (Giving Australia 2005: 6) and the 2010 international ranking of Australasia (Australia and New Zealand) as the region with the highest incidence of giving money (CAF 2010: 68). In this context, the absence of claimed tax-deductible donations by high income earning Australians is one indication of a relative lack of expectation that those with the most should give accordingly. Indeed, it may be that in Australia the norms associated with giving by the wealthy are less like those which operate in the United States, and more like that those of the United Kingdom where the prevailing model of charitable giving in the UK has been characterised by Edwards (2002) as typified by spontaneous, spare change donations regardless of income. Capacity is a precondition for charitable giving, it is not sufficient condition. In Australia there is no pervasive antipathy to state involvement in the provision of services; substantive charitable giving is not a societal expectation of the nation’s wealthy; and substantive charitable giving is not an integral and defining element of the elite culture.

### NEW MODES OF PHILANTHROPY

Contemporary considerations of the entrepreneur invariably incorporate the conceptualisation of Schumpeter (1994) that the entrepreneur performs the function of innovation that is fundamental to the effective operation of market based liberal systems. This direct association of entrepreneurs and innovation leads to a general assumption that entrepreneurs *per se* are attracted by and responsible for new modes of philanthropy. This assumption is also in part informed by and predicated on the establishment of the US philanthropic foundations in the late nineteenth and early twentieth centuries by entrepreneurs of the likes of Carnegie, Rockefeller and Ford (Karl and Katz 1981). Nevertheless, in recent decades there has been considerable attention paid to what have been described as “new” styles of philanthropy throughout the western world.

Encouraged by a series of articles in the *Harvard Business Review* in the late 1990s, Letts, Ryan et al (1997) introduced the concept of “virtuous capital” as a juxtaposition of venture capital and philanthropy. With later contributions by management theorists Porter and Kramer (1999) cumulative interest in alternative styles of giving gave way to a cross-pollination of philanthropic practices with ideas emanating out of business schools. Importantly, the rise of Northern California’s “Silicon Valley” as the centre of US innovation, wealth and increasingly philanthropy has seen a new class of *social investor* or ‘investors for good’ take the mantle (Frumkin 2003; Frumkin 2006; Bishop and Green 2008). As one sector-wide analysis observes “wherever emerging industries have spawned new fortunes, new philanthropic initiatives [are] sure to follow” (Morino and Shore 2004, 10).
The terminology used to describe this transformation has shifted frequently over the past decade or so from strategic to effective to venture philanthropy and more recently settling on social entrepreneurship. Perhaps the most revealing (and controversial) label to surface from recent literature, however, is philanthrocapitalism, originally coined by Bishop in *The Economist* (2006) but quickly gaining a footing in the lexicon. Anheier and Leat (2006: 5) call this the “new scientific philanthropy” and identify this as the third phase in the history of giving in the Western world. Katz (2005: 123) shares this sentiment, but rather than seeing new forms of philanthropy as novel, he remains instinctively “skeptical about the direction – or directions – of philanthropy in recent years”. Katz channels his critique at the “abstract” managerial rhetoric, which oftentimes seems to be stating the obvious; e.g. that donors act strategically when they are unlikely to opt for the counterfactual anyway. He also challenges the way in which this rhetoric appropriates without acknowledgement, the central mantra of the US founders of philanthropy; e.g. the “stress on causes rather than symptoms” (Katz 2005: 126).

**First and second generation: Resistance, convergence and organisational cultural change**

The arrival of alternative modes of philanthropy is opening up some minor, yet not insignificant, distinctions between private foundation organisational types, as well as operational ethos. On the one hand, we have the traditional large-scale grant-making foundation. This ideal type – labelled here *first generation* – is modelled on the early and mid twentieth century entities established by formidable US entrepreneurs. This type also includes other large-scale and more recently established liberal foundations such as Hewlett, MacArthur and Packard, and Gates. Characterised by perpetual endowments, a large and traditional organisational structure, and an emphasis on diverse programmes, this type has historically been the dominant force in private philanthropy in international development.

On the other hand, we have the newer, second generation foundations, many of whom emerged out of the vestiges of the technology boom of the 1990s (Bul and McNeill 2007: 51). These foundations are perceived to be more reflexive agents, defined by an emphasis on technology, flexibility, entrepreneurialism, and the flat or horizontal organisational structures (Desai and Kharas 2008: 158) characteristic of modern managerialism. Examples include the Skoll Foundation, endowed by the former President of eBay, Jeff Skoll; the Acumen Fund, a venture fund modelled on venture capitalism; and Google.org, a for-profit social investment fund which seeks to address a wide range of global problems from health through to climate change through “investments” as well as “grants” (Nelson 2008: 5).

Desai and Kharas (2008, 158) have labelled this the ‘California Consensus’. They argue that these ‘new players’ are ‘blurring the line between “not-for-profit” and “for-profit” approaches’, a theme that has been taken up by many in the media (cf. Bishop 2006) and practitioners in the broader sustainability and CSR industry. Elkington and Hartigan (2008) for example extol the blossoming cosmopolitan ethic evident among some agents in the private sector. Its implications and importance as a driver of contemporary philanthropy, while under theorised, nascent and arguably more nebulous than recognised by some commentators (Solomon 2009), are nonetheless potentially of significance, particularly as these ideas have begun to diffuse more widely. The extent to which the new forms are intrinsically attractive to entrepreneurs has, quite simply, been assumed rather than investigated, particularly in the Australian context.

In many ways, however, the perceived division between traditional and “new” forms of philanthropy is becoming increasingly less rigid than as it was being drawn at the start of the twenty-first century. One of the oldest and most enduring US foundations, the Rockefeller Foundation, has readily adapted to the new climate, instituting an organisational restructuring that mirrors these managerialist approaches (*The Economist* 2006c). It has also recently partnered with the Acumen Fund (a recipient of a seed grant) and the Monitor Institute – founded by management guru Michael Porter – to promote “impact investing” – which aims to free-up foundation endowments for investment in the social enterprise space and align foundation investment strategies more closely with mission. Conversely, following a struggle to deliver against its mission by way of its radical form, Google.org has restructured in a manner that much more closely aligns with more traditional philanthropic modes (Boss 2010).

The renewed emphasis on “impact”, evaluation and business metrics in traditional and new foundation forms confirms that “business-like” approaches are spreading across to established institutions. This is gradually obscuring the division between the first and second generation foundations, which until more recent times appeared more pronounced. The essence of these developments as they relate to entrepreneurs is perhaps best captured by Berman (2007), who on drawing on the extensive experience of Rockefeller Philanthropy Advisors on working with philanthropists across the spectrum of wealth sources, observed:
Risk-taking, vision and an entrepreneurial approach to philanthropy are often found among inheritors – although they may not use the buzzwords of business. By the same token there are successful entrepreneurs who cannot convert their drive and talent to effective philanthropy, even using the model of capitalism. As any venture capitalist will tell your, there are legions of entrepreneurs who cannot mange, work in partnership, or take their idea to scale (Berman 2007: 33).

Nonetheless, while the terms are (and should be) contested they do provide a neat delineation of the new philanthropic landscape, particularly as it is portrayed in the literature.

**Entrepreneurialism and entrepreneurial giving styles**

A key feature of strategic philanthropy and other new “giving styles”, such as venture philanthropy, is an emphasis on measurement. Various metrics, loosely modelled on financial analytics, have been tested over the course of the last decade to quantify a firm or organisation’s social and environmental, as well as financial, performance. A broad cross-section of the foundation sector, although particularly those emanating from the US West Coast, have adopted such metrics. One of the early metrics to gain traction was Social Return on Investment (SROI) (Frumkin 2003, 13-14) formulated by the Roberts Enterprise Development, established by George Roberts of private equity firm Kohlberg Kravis Roberts & Co. Most literature cites REDF (Eikenberry and Kluver 2004: 134) (cf. Eikenberry and Kluver 2004, 134; Frumkin 2003, 13; Tuan 2008) as a pioneer of “results” oriented philanthropy and SROI, which attaches a social dimension to the classical accounting concept, ROI, was utilised by the REDF as a performance management tool to illustrate the “accrued” societal benefits of each of its investments (Tuan 2008: 11).

What is important to note here is that there has not just been a shift toward the introduction of metrics but a fundamental shift in discourse that is reformulating philanthropic practice along lines that are said to have roots in entrepreneurial behaviour. Eikenberry and Kluver (2004) see this as a largely donor-driven process and one that is a direct carryover of the migration of entrepreneurs from the business and technology sectors. As many supporters of increased measurement are erstwhile venture capitalists with experience in the business world, where creating (and demonstrating) shareholder or stakeholder value is an imperative, there is a sense that philanthropists and grantees should be able to demonstrate outcomes, thus sending a signal that grants have been distributed with appropriate “accountability” (Stannard-Stockton 2007: 45). Brest (2005, 136) therefore argues that while there is a complexity to monetising social phenomena, “with or without attempting to quantify social returns, the investment metaphor embodies an attitude that presses foundation staff to use their donors’ resources as effectively as possible” (emphasis in original).

Moving beyond measurement, another defining feature of the new philanthropy implicitly associated with entrepreneurs evident in the literature centres on the issue of engagement – or what can be characterised as deep rather than shallow patterns of interaction. Some form of active interface, whether through monitoring, feedback, evaluation or consultation on programmatic design has been a constant feature of cooperation. Strategic approaches, as observed above by Katz (2005), have always constituted the norm in some form or another. Yet in venture philanthropy, as in venture capital, there is said to be a highly augmented pattern of interaction between the donor (or ‘investor’) and recipient (or ‘investee’) (Frumkin 2003, 11). Most accounts of venture philanthropy (cf. Brest 2005; Frumkin 2003, 2006; Vurro 2006) cite the manner in which funders interact with partner agencies as the most conspicuous departure from traditional approaches. Engagement may take the form of managerial advice, secondment of employees or access to management or financial consultants, the aim being to facilitate knowledge transfer and interorganisational learning through sustained cooperation. Frumkin (2006) does not see this as a one-way process. He notes that “rather than cut a check and run” the donors do not only advance various forms of material and in-kind support, but also receive some benefit that ‘satisfies the desires of many wealthy people to find meaning in their lives outside business’ (Frumkin 2003, 12).

Linked to the notion of augmented engagement is an additional emphasis on the deployment of continuing resources beyond an initial seed grant, and in keeping with the venture capital orientation, taking account of long-term investment horizons (Vurro 2006). Until relatively recently it has been commonplace in the literature to view big philanthropy as something of an incubator for social innovation, particularly in the period following the 1970s (Morino and Shore 2004). After a programme had proved a success and its effectiveness demonstrated to public officials it was expected that the state would step in and scale the programme up through “expansion…and government replication” (Frumkin 2003, 9). This dominated philanthropic strategy and according to Prewitt (cited in Morino and Shore 2004, 79) government was the natural partner in any strategic alliance that would ensue. However as government has progressively taken a less overtly interventionist approach
philanthropy has been forced to adapt. In the venture and strategic paradigms therefore “large blocks of capital [are] delivered over an extended period of time” in an effort to create a self-sustaining sector as government lacks the resource capacity to engage in large-scale programmatic expansion (Frumkin 2003, 9). As such there has been a discernable shift away from the grants as scattered among a wide web of grantees to large investments that seek to build a responsive (or “business-like”) social economy. There is one caveat that many of the new entrepreneurial funders purportedly attach to an investment: an exit strategy, with ‘support only’ withdrawn “when the entity is able to sustain itself” (Romirowsky 2007: 113). As yet, however, the extent to which these practices are employed in Australia is not well documented in the academic literature. Moreover the relationship between more engaged forms of philanthropy and the influence of entrepreneurs has not been explored.

CONCLUSION

This paper has provided an overview of extant literature relating to entrepreneurialism and philanthropy. Our review suggests that while there is a relatively limited supply of research dealing with an array of associated matters, there is even less which deals directly with the questions of whether entrepreneurs give more and whether they give differently. What studies are available indicate that entrepreneurs are well represented in the ranks of the wealthy. A small number of studies in the US have indicated that amongst the wealthy, entrepreneurs on average give more. It is not clear however whether the average is distorted by particularly high level gifts by a small number of individual entrepreneurs, or whether higher level giving is indeed common across entrepreneurs as a whole.

The majority of the research and literature of relevance to this exploration is derived from the US. Giving in the US and giving by the wealthy in particular in the US have been clearly identified in the literature as being significantly influenced by the history, culture and taxation of giving in that country. What little research has been undertaken in Australia indicates that what have been identified as key drivers of giving by wealthy in the US are simply not operative in Australia, to any significant degree.

There is a growing body of literature that addresses new forms of philanthropic giving, the attractiveness of these forms to entrepreneurs, and the implication that such approaches are a direct response to the migration of entrepreneurs from the business world across to philanthropy, particularly in dynamic regions such as “Silicon Valley”. The association between entrepreneurs and new forms of giving tends, however, to be based on observations and is rarely supported by data. Is the proposition that entrepreneurs are attracted to particular forms of giving a generalisation, a supposition, or will it hold up to closer examination? It is the view of the authors of this paper that even if such a proposition is sustainable in the US, where researchers have used to cases to show, an albeit contested, relationship between entrepreneurs and entrepreneurial giving styles, there is limited academic research in Australia to either support or contradict any assertions about the possible nexus between entrepreneurialism and philanthropy. Given the close association between wealth and entrepreneurs, and wealth and giving, the lack of any substantive insights into entrepreneurs and giving in Australia is significant shortcoming. We believe the time is right to address this knowledge gap.

References


