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<td>Abstract:</td>
<td>Twenty philanthropists, who devoted personal wealth in excess of $5 million to create social innovation in order to care for their beneficiaries were studied in Decoding-the-Discipline (DtD) interviews. We contribute to the substantive psychology and management theories on risk in the domain of international development philanthropy by delineating the process by which philanthropists overcome the five major barriers in managing this high risk. These barriers were: 1) defining risks; 2) evaluating their severity; 3) how to decide when to shift mindset; 4) coping with negative emotions and 5) optimizing the value that their life experience offers their philanthropy.</td>
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RISK PERCEPTION AND MANAGEMENT IN DEVELOPMENT PHILANTHROPY

Introduction

The elimination of poverty is the No1 goal outlined in the United Nation’s sustainable development agenda 2030 (United Nations 2016). It is also the focus of numerous NGOs and charities, as well as development assistance programs from governments (Pratt et al 2006). In its broadest sense, poverty is defined as a failure of basic human capability to function in society (Nussbaum and Sen, 1993). It could be caused by a complex array of problems such as “inadequate income or education, poor health, insecurity, low self-confidence, a sense of powerlessness or the absence of rights such as freedom of speech” (World Bank Institute, 2005).

In this paper, we use the phrase international development to describe any effort that is exerted to grow human capability to function in society. Economic growth, although an important factor in eliminating poverty, does not address poverty elimination in this broader sense (Dollar, et al, 2013; Dollar and Kraay, 2002). This paper focuses on unblocking a key barrier that prevents many countries from alleviating poverty, namely a “lack of innovation” in the systems that foster human wellbeing (Sachs, 2005). We chose this focus because of its importance. In a study spanning two decades which examined differences in attained poverty reduction Sachs (2005, p62) concluded that “the innovation gap is certainly one of the most fundamental reasons why …
countries have diverged and why the poorest of the poor have not been able to get a foothold on growth.”

So how might one foster that innovation? One of the major conclusions of a Rockefeller Foundation summit held in Bellagio in Nov 2011, on The Future of Philanthropy and Development in the Pursuit of Human Wellbeing, was that the perception and management of risk in the development “system” may be an issue. While there are obviously many relevant development actors, participants felt that individual philanthropists (in particular), could be more accepting of failure and recognize that to achieve genuine change much of their resource may be “wasted” along the way. Failure, participants argued, should be seen as the acceptable cost of innovation (Bellagio Initiative, 2012).

However, there is evidence that many philanthropists are not willing to take risks with their philanthropy. The Bank of America and Center on Philanthropy (2012) study tells us that virtually no high value philanthropists want to take substantive risks with their philanthropic assets (a mere 2.3%). Equally, a previous iteration of the same study tells us that philanthropists are actually more risk averse with their philanthropic assets than they are with their personal financial assets. Some 26% reported not being willing to take any risks with their philanthropic assets, compared with only 10% who took a similar view of their other financial investments (Bank of America and Center on Philanthropy, 2010). There is also much anecdotal evidence that supports these findings with many sector leaders suggesting that large scale development philanthropy has failed and that a greater degree of vision and risk taking is now necessary (National Committee for Responsive Philanthropy 2010). Howard Buffet, for example, has
called on his peers to take more risks and focus on longer-term solutions, although recognizing
that not all organizations are equally well placed to do so. In his view “a private family
foundation is in the best position of anyone to take risks. (They) don’t have to worry about
making donors happy. (They) don’t have to fund raise,” (cited in Forbes, 2013).

In the study that follows we take no stance on whether individual philanthropists should take
more risk in their philanthropy per se. Nor do we mean to suggest that encouraging
philanthropists to take risk is necessarily preferable to risk taking by other actors. Rather we seek
to understand how individual philanthropists conceptualize and manage risk in their giving with
the goal of delineating how individuals could engage in more informed decision making and
arrive at a perspective and an approach that is right for them.

To do this we use a Decoding-the-Discipline approach (Pace and Middledorf, 2004) to reach
greater clarity on how risk is defined by development philanthropists, the perceived barriers they
need to overcome in order to anticipate and manage such risks, and how they might be able to
optimize the value delivered by their risk management practice. We will conclude with further
insights on how the development sector might help promote and support higher risk-taking in
individual philanthropy and the circumstances where that might be appropriate.

**Methodology**
We chose to use the Decoding-the-Discipline interview procedures (Middendorf & Pace, 2004) guided by the principles of grounded theory (Glaser and Strauss, 1967) in this research for important pragmatic and epistemological reasons. Pragmatically, our literature review did not identify any research on how risk is defined or managed by high value philanthropists. We define high value philanthropists as those who have given over $5 million in personal resources to the task of (in this case) international development.

While much has been written on the topic of risk in the discipline of psychology (e.g. Slovic 2010) and business risk management (e.g. Shapira, 1995), surprisingly little research exists on how entrepreneurs (with the exception of Koellinger, et al 2007; Kumar, 2013) or social entrepreneurs (with the exception of Ellis et al., 2012; Miles et al., 2013; Phillips, 2005) perceive or manage risks. The Bank of America and Center on Philanthropy study (2010, 2012) focused only on financial risks relying on its common definition, without asking how philanthropists define the concept of risk. We thus opted for a “purist” approach in the application of grounded theory (Dunne, 2011). That is we did not then conduct an extensive search of the literature on the psychology and general management of risk prior to data collection.

Both authors are however aware of the existence of this literature, making it impossible, phenomenologically or hermeneutically, “not bring any a priori knowledge” on risk into the project (Locke, 1996, p. 242). In that sense, we adopted recursive analytic operations (Locke 1996) in our application of grounded theory. That is our data collection, analysis and interpretations occurred in a recursive cycle where data collection and data analysis occurred simultaneously (i.e. constant comparison) and where decisions about which data should be
collected next were determined by the theory that was being constructed (i.e. theoretical sampling) (Glaser & Strauss, 1967; Glaser, 1992; Dunne, 2011). The nature of this epistemological approach is important. It means we then permit data to dictate the development of our substantive theory (i.e. on risk in international development philanthropy), while at the same time we allow existing theoretical concepts (i.e. general psychology and management of risk) to earn their way into our “narrative” (Dunne, 2011). In this sense existing theory is analyzed as an additional informant and we treat it as such below by presenting extant thinking alongside our data (Glaser, 1978).

We conducted a series of twenty 60-90 minute telephone interviews with high value philanthropists drawn from Africa, Asia, Europe and North/South America. Initial participants were recommended for their expertise in managing philanthropic risk by the funders of the study (the Rockefeller Foundation and the Resource Alliance). Additional informants were sought as the project unfolded. Each philanthropist had devoted personal wealth in excess of $5million to the task of international development. The sample comprised a mix of different ages (40-80) and genders (10 male and 10 female). It also includes individuals with first, second or third generation wealth. Some of them made their own wealth, while others inherited it.

In structuring the interviews a Decoding-the Discipline (DtD) approach was adopted. Althaus (2005) argued that research on risk could benefit from a “disciplinary perspective.” DtD is a pedagogical research tool originally designed to help instructors aid students overcome “bottlenecks” in order to think like a disciplinary expert (Middendorf & Pace, 2004). The DtD approach assumes that people, who are experts in their field, become experts because they are extremely good at what they do. One consequence of being extremely good, however, is that the
thinking process that they use to become an expert becomes so natural to them that they rarely need to think about how they do things or reflect on the major barriers that they need to overcome in order accomplish something. It becomes second nature to them, making it difficult to isolate learning that might aid others to cope in similar scenarios. DtD is thus suited to scenarios where it is necessary to uncover or decode expert ways of thinking that are not intuitively obvious, even to the informant.

In this approach, the interviewer focuses on barriers or “bottlenecks” that experts need to overcome in order to achieve a goal. We therefore asked our interviewees to “recall an experience where they deliberately took a higher than normal level of risk or where they had to cope with a difficult consequence of having taken a risky decision.” Then, the interview focused on teasing out the steps that such individuals go through in taking these decisions. Following Glaser (2001) interviews continued to the point where no new learning was accruing. At this point a concept has been theoretically saturated. There are differing perspectives on the minimum number of interviews that might be deemed sufficient for this saturation to occur (e.g. Bruce 2007; Guest et al 2006) but we allowed the final size of the sample to be dictated by our data.

**Results**

In the course of our interviews we delineated five barriers that our informants needed to overcome in order to clearly define what risk means and how to manage it, such that they may take the “right” kind and the “right” severity of risks in order to create impact in caring for their
beneficiaries. The DtD approach dictates that we took people back to the experience where they experienced the most difficulty or highest level of arousal in managing their risks and then traced the progression of their experience chronologically. It is hence possible that the seemingly logical steps that we identified in this paper are due in part to the method of posing chronologically sequenced questions.

Throughout our discussion and in the discussion of the fifth barrier in particular, we will describe the iterative and integrated nature of how our interviewees overcame these barriers. We will conclude with a brief summary of how these findings can be used to design interventions to support risk optimization in individual philanthropy.

**Barrier 1: Defining What Risk Means**

The primary risk in international development philanthropy was felt to be the risk of not achieving the *desired* impact for the *focal* beneficiary group. This is what we shall refer to hereafter as **Impact Risk**. It is composed by both a sense of ambiguity and a sense of uncertainty (Einhorn & Hogarth, 1985). It is important to understand that this definition implies that the articulation of impact risk is subjective and personal to a philanthropist. This is consistent with previous conceptualizations (e.g. Slovic, 2010) but our research describes more precisely the nature of how international development philanthropists subjectively define their risks.

First, it is often difficult for philanthropists to articulate how they define impact (thus creating uncertainty) and in many cases their definitions morphed substantively as they learned more
about what was necessary in a given context. One of our philanthropists, for example, originally defined her impact as managing the pain of terminally ill children in the focal community. This later morphed into successfully caring for the parents, family and community who suffer alongside the children, and then ultimately to transforming the education of medical doctors in the country such that palliative care could become a routinely considered option.

Second, it is often difficult for philanthropists to decide a priori how to design an effective social innovation system (i.e. selection of appropriate intervention(s) and the design of an appropriate system for delivery) to achieve the desired impact (Liedtka & Ogilvie, 2010). This design too might need to morph as the program proceeds, often creating further and frequently, heightened uncertainty. This is what we term Operational Risk. High operational risk in international development philanthropy is caused primarily by the degree of innovation in the design of the intervention itself. Consistent with previous literature, the more philanthropists rely on pre-tested ideas and avenues commonly agreed to be effective, the lower the perceived risk (Murrey, 2010).

Returning to our previous example, in seeking to reduce the pain experienced by terminally ill children our philanthropist perceived relatively little operational risk when the impact she conceptualized was merely the provision of palliative medicines (a simple matter of distribution). This morphed over time into finding innovative ways to influence the established perspective on medical ethics in the country where resulting to palliative care was regarded as an admission of failure and therefore rarely offered.
Finally, the lack of evidence or the provision of tangential or partial evidence in support of the success of an initiative can also create a source of risk. This includes the selection of relevant metrics, the data gathered and their interpretation. This is what we term **Assessment Risk** and the construction of the right assessment approach may also need to morph as the program proceeds. Assessment is where most nonprofit risk literature focuses (Paarlberg & Meinhold, 2012; Thomson, 2010), however, most of this extant work focuses on the reporting of established organizations (rather than start-ups) and fails to address the relationship with the other categories of risk we delineate (Lee et al., 2010).

Our philanthropist was initially very confident that she knew what to measure and how to measure it (i.e. counting the number of children aided.) *“When we started out, I was running it like an investment bank. There were targets to be met, and the targets were basically established by me.”* As the project progressed the identification of appropriate metrics became increasingly problematic. It transpired that the medical profession was highly resistant to change and that the only way to influence the profession was through the opinions and actions of the nurses caring for the patients and their families. As the nature of the intervention morphed, so the search for appropriate assessment measures morphed and this in turn (ultimately) helped shape her conceptualization of her impact risk.

Considered together (see Table 1) our research therefore reveals a complicated picture of how international development philanthropists define risks: three discrete categories of risk, but with the ambiguity and uncertainty in each capable of generating further ambiguity and uncertainty in others (Einhorn & Hogarth, 1985).
Other risks concerning philanthropists engaged in international development include financial risks, reputational risks, political risks and personal risks. These other risks however were never described as the “core,” “fundamental,” or “most important,” risks that troubled them. In the majority of our cases, these other types of risks concerned philanthropists because they increased their impact or operational risk. The reduction of these other risks was never mentioned as an end in itself. Our cases did not contain reference to any other risks.

**Barrier 2: Determining What Degree of Risk is Acceptable**

Slovic (2000, pxxxvi) concluded after 50 years of research on risk perception that "there is no such thing as … objective risk." "Risk (similar to organizational effectiveness) is inherently subjective" and a function of many different variables, notably the background, personality and experiences of the individual (eg Sung & Hanna, 1996; Grable & Lytton, 1998).

People also take decisions in part about the risk they are prepared to tolerate by drawing on other life experiences, even if these are drawn from other contexts where the circumstances and rules of the game are very different. They also tend to over-emphasize conclusions drawn from recent
experiences (Zackay, 1984) and place more emphasis on the consequences of decision outcomes than on their statistical probabilities (Forlani, 2002).

One widely studied decision making heuristic appears to influence most aspects of how philanthropists assess risk. The heuristic we are referring to is termed anchoring. Kahneman and Tversky (1974) found that people often make numerical judgments by anchoring on a number and then adjusting for other things that they know. But on average, people under-adjust. In philanthropy what was identified in our study, was that this heuristic can be helpful or harmful to risk assessment depending on the nature of such anchors, the specific context of the philanthropic decision making and the extent to which the individual appropriately adjusts. From our discussions, for example, it was clear that many of our participants had used anchors drawn from their experience in business and the public sector and thus, as it turned out (Epley & Gilovich, 2005), anchors that were inappropriate to the practice of philanthropy.

So how does this happen? The first task that philanthropists appeared to face when making decisions about how much risk to take in a given philanthropic engagement was to determine the magnitude of both impact and to a lesser extent financial risks. In respect of impact risks, our philanthropists tended to term the following types of projects high-risk projects; circumstances where:

a) Outcomes are *hard* to measure

b) Accurate measurements are *hard* to obtain

c) Positive measurements may only show up in a *long*-term time horizon.
d) Outcome measures are not endorsed *homogeneously* by all relevant parties.

In respect of financial risk they consider the following factors in determining the level of risk:

a) How *risk-diverse* is their philanthropic portfolio

b) Where does a particular philanthropic investment lie in their philanthropic profile

c) How *big* is a particular philanthropic investment?

There are echoes of these points in the wider business risk and judgment and decision making literature where it is well established that the more ambiguous the probability of success is, the less likely one is to perceive such endeavors as risky, the more risk-diversified one’s portfolio is, the more likely one is to tolerate risk and the larger a particular investment is, the higher the risk it is perceived to carry (Slovic, 2000). Our research identifies that these are the critical factors in the domain of philanthropy.

We also gain new insight through combining knowledge of anchoring and under-adjustment with context specific knowledge about how philanthropists define impact and operational risk. We can thus begin to answer questions such as how “hard” is hard, how “long” is long, how “diverse” is comfortably diverse, and how “big” is too big?

We found that philanthropists use their own previous experience to anchor their judgment about philanthropic risks, and they do so along the dimensions we mention above. For example, for someone who has been engaged in the world of venture capital in medical research, they will be
used to making large investments over significant time horizons where the outcomes may not be known for many years and where the side effects of any new drugs may be hard to quantify. The likely outcomes from their philanthropy may be similarly hard to quantify, and they thus see the impact risk as moderate, but if the size of the investment is significantly smaller and the time horizon shorter than they are used to, they will be inclined to see less financial risk in their giving.

What this means is that they weight their risk assessment more heavily on their past experience than they should and take less account of the “real” risk in the context of their philanthropic decisions. For example, for a Venture Capital professional, when he decides to become a philanthropist, he may engage in “unnecessarily” high risk philanthropy, simply because he is used to high risk, while an industrialist may engage in “unnecessarily” low risk philanthropy, because she is not comfortable with higher degrees of risk. From this perspective, past professional experience might become a foe not a friend in determining the optimal risk to take in their philanthropy (see also Zackay, 1984).

To encourage individuals to improve their philanthropic decision making they have to be encouraged to set aside value judgements and their associated anchors from their prior experience (in business) and to consider philanthropic decisions afresh. Hermansson (2012), for example, argues that “even though every ‘objective’ risk can be described in several different ways, and does involve value judgements and emotions, the (search for) objectivity ideal should not be abandoned.” (Hermansson, 2012, p.16) Thus if an individual wishes to become a full time philanthropist a process of education must take place. Individuals need to be given new anchor
points appropriate to the sector they will now be working in, perhaps through the establishment of networks that allow philanthropists and development professions to share experiences and communicate new norms.

“\textit{All six of us (in the same giving circle) come from business and cooperate background and tended to apply that business logic. Why should we be doing this?} And some times during the process we needed one of us to step back and say, \textit{This is crazy}. \textit{We are here to give away our money... we should allow ourselves to take a much greater amount of risk and take a vow to give away this money rather than be protective}....”

An alternative approach would be to encourage philanthropists to engage in a greater degree of reflection. The goal here isn’t to change the anchor, rather to ensure that the individual adjusts correctly. Individuals need to be helped to realize how their (sometimes irrelevant) past experience influences their risk assessment in philanthropy, so they may adjust properly and arrive at a more mature assessment of the risk at hand.

\textit{Let’s say that their spouse or child gets cancer. Giving can be a personal reaction. They just don’t think any further on it. They are just giving to the cause because of a person or connection. And somewhere along the way they start asking questions about what the organization is doing and then they get a bit appalled (because of their business expectations). Then they might be more discriminating about their giving. Then when they get to my stage they start to}
realize that each organization they are giving to is a distinct philanthropic gift as opposed to a commercial investment. So I think it is a learning curve that we all have to go through."

A third potential approach would to be help philanthropists identify projects that have a better fit with the levels of risk they are comfortably used to taking. Philanthropists can match themselves to the right causes, or the right causes can seek out the right philanthropists. The individual can then be encouraged to take rational small steps out of their comfort zone. The idea is presented graphically in Figure 1.

If a philanthropist is comfortable with accurately adjusted risk assessment at level 1, in order for her to take up additional risk, the best way to encourage that is to find a project that is at level 2 and move her up the scale. She would be uncomfortable and may even refuse to invest directly in projects perceived as level 5 yet lower levels may be acceptable. Individuals from different professional backgrounds will be more or less risk tolerant and thus arrive at a different level in the model.

Barrier 3: How to Decide When to Shift Mindset
Kahneman and Tversky (1979) found that when individuals are deciding whether or not to take a risk they are most sensitive to changes in probability near the natural boundaries of 0 (impossible) and 1 (certain). Thus, a 0.1 increase in the probability of making a social impact has a greater impact on decisions when it changes the probability of making an impact from zero to 0.1 (from impossibility to a slight chance of making an impact) or from achieving a definite impact to a slight chance of something going wrong (i.e. from 1.0 to 0.9). Consider the following philanthropic examples. In our first scenario a philanthropist believes there is a 70% chance of an organization achieving a social impact without their help and an 80% chance if she offers it. She will be much less likely to offer her support than in a second scenario where there is a 10% chance of success with her help and none without it.

Our interviewees felt that many new philanthropists were taking decisions in the realm of 0.9 to 1.0 where with the proper metrics they could approach certainty in respect of the outcome they desired to achieve. At the same time, there would also seem to be an opportunity to focus on the other end of the scale, where there is zero probability of achieving a social impact without a philanthropist’s involvement. Theory predicts that philanthropists will be as likely to engage in this latter scenario, so the issue for innovation projects becomes one of framing.

To illustrate - one of our interviewees explained that each and every one of his program ideas had been tried by other organizations before and met with failure. What attracted him was the ability to combine these ideas and have them tackled by a single entity. In aggregate the risk was therefore very substantial, but he believed that a multi-faceted approach had a “slim” chance of working. He was in a unique position to be able to try that approach and thus create something
from nothing. That is what ultimately drew him to the project. Kahneman and Tversky explain this behavior and suggest that this philanthropist would have been less likely to invest if the previous interventions by other organizations had been met with mixed success.

A number of our philanthropists elected to “balance” their giving by selecting some projects which approached certainty in their likelihood of success (and thus seen as “low hanging fruit”), but adding project(s) where the probability of success is close to zero, but where the potential gains are highly desirable. They thus adopted a portfolio perspective, consistent with general risk theories.

Our interviews suggested a further option, namely focusing on the role of the individual philanthropist, rather than the project per se. There are many scenarios where the project will only have impact if a particular philanthropist gets involved. If a nonprofit can make it clear that there is a close to zero chance of the project happening without ONLY this one individual’s support they can increase the likelihood of giving. Our data indicated that it was not enough for this matching to be superficial. Many individuals might be able to offer the focal amount or share a genuine passion for the cause. The notion of a match only became believable when distinctive knowledge and competences were sought. Figure 2 illustrates the idea.

Insert Figure 2 Near Here

It may be rare that a philanthropist would be willing to immerse themselves in a project and provide all the elements we list in the box, but it was clear from our interviews that some
combination of the talent they bring to the table may on occasion be distinct. What interests us
this approach is that while such a tailored ask would be likely to increase the chances of support,
it will also enhance the giving experience for the philanthropist (Bellagio Initiative, 2012).

There are also take-outs from Kahneman and Tversky’s work for individual philanthropists who
can benefit from being aware of how their assessments of risk are framed. They too can seek
better matches between their philanthropy and competences to achieve impact or identify
personal development issues that might need to be addressed to get them to that point. They can
also be cognizant of a natural tendency towards short-term gratification (Angeletos et al., 2001)
rather than longer-term projects that might better serve both their needs and the needs of the
community. As the quality of the individual fit improves, they should become more accepting of
risk.

**Barrier 4: Coping With Negative Emotion**

Many of our informants reported a high degree of frustration with their early forays into the
domain of philanthropy. They experienced frustration if success was not as forthcoming as they
hoped and after successive “failures” were encountered, some of those we interviewed had
actively considered withdrawing from the domain. As one individual commented “there just
didn’t seem to be the personal rewards I had hoped for.” In this section we explore the source of
that negative emotion and how reframing the issues might prove helpful.
In a philanthropic transaction, an amount of money is transferred from a philanthropist’s account direct to another’s account. There is nothing intrinsic to this transfer that is either a gain or a loss, so a philanthropist could view it as either. This transfer might be perceived as a gain when social impact is anticipated or achieved; and as a loss when an undesired social impact is created or a desired social impact is created unsustainably, or not at all. In this sense, the valuation of money is never a stand-alone valuation in the philanthropic context. The valuation of any financial input is always associated with the valuation of the achievement or anticipated sustainable achievement of the social impact. One reflected that “look, we are going to give this money away anyway but this is a better way of applying our philanthropic dollars. We don’t need any financial return but we do want to see the social and environmental return.”

To encourage successful risk assessment and management, our philanthropists explicitly articulated what would constitute gains and losses in terms of their resources. These resources may include financial, time and/or network resources. An explicit consideration of these issues has the potential to greatly enhance decision making since the philanthropists in our sample were typically 1) very good at articulating potential loses or gains for their beneficiaries, but not for themselves and 2) very good at articulating potential losses, but not as good at articulating all the potential gains.

In evaluating philanthropic impact, our philanthropists consciously considered social impact as a gain, and the nature of this gain is what concerns them most in their philanthropic involvement. Since this is the type of gain that they consider central to their philanthropic investment, they were almost always focused on refining it until when they could articulate it clearly. They
acknowledged that this articulation may not have been clear at the inception of a project, but it was nevertheless something that they had made a conscious effort to do. One of our informants reflected that “for me I was always very strict. “Why don’t we have the results? Why don’t they want high marks? Is that the right impact ...?”

What was less obvious to some philanthropists was that personal impact (i.e. impact on them as an individual) can also be a gain. Most participants felt that personal gain was not why they entered philanthropy and they stopped their reflection at that point without necessarily asking themselves what consequence their philanthropy might bring to them. As selfish as this reflection might seem, our interviews revealed that those who had considered personal gains found much more depth and personal value in their philanthropy, typically reflecting on the meaning of their life as articulated through their giving, the intellectual stimulation of trying to solve difficult and often intractable social problems, and/or the sustained enjoyment derived from developing their competence to contribute to social change (consistent with recommendations of economist, Andreoni, 1990).

“I am really good at problem solving. A lot of social problems are really difficult to solve, and no one has been able to solve them before. My philanthropy offers me the opportunity to stretch my problem-solving skills to a place where they have never been stretched before, and that is exciting and fun.”

Indeed there is evidence in the extant literature that “successful risk taking individuals are likely to believe that they can beat the odds …and that they have special abilities” (West & Berthon,
1997, p.30). Thus being given the opportunity to reinforce that identity can be a significant personal gain. Here, our philanthropists actually experience “more excitement and fun” in solving social problems, then solving problems in their business careers such as investment banking. This is because for them, “the social sector is maybe more challenging ... in many aspects than the private sector. It is no less rewarding, meaningful, fulfilling; in fact probably more so than working in the private sector.”

As obvious as this might sound, we found that if philanthropists did not focus consciously on what their giving achieved for them, their potential losses can begin to outweigh their gains. As a consequence they can experience negative emotions and they are less likely to be accepting of development risk.

**Barrier 5: How to Decide What to Transfer from Their Life Experience to Their Philanthropy**

In comparison to the previous four barriers, this barrier would not in itself make-or-break one’s philanthropy. It is simply a learning journey that our interviewees consciously monitored and improved with time and experience. However, failing to overcome this last barrier simultaneous
with overcoming the others could increase the perceived severity of the first four barriers and harm one’s overall risk-appetite for philanthropy.

Many participants in our study felt that one of the most important lessons they had learned on their philanthropic journey was the importance of gaining domain specific knowledge of the social problems they targeted and the need to gain higher competence in solving these problems. This higher competence could be derived from their experience in philanthropy, but it would more typically derive from understanding how to leverage their existing (perhaps business acquired) competences to tackle the social problem. That is to leverage the same general thinking skills but properly adjust to the right anchors in their thinking frameworks.

During the initial learning stage, when the development problems are not smoothly gelled with their existing competence, they experience a challenge to their sense of self-efficacy and as we noted above can become disheartened with the reality of how difficult it is to create and sustain social change. For some of our participants, early in their philanthropic ‘careers’ this feeling of powerlessness had led to a growing desire to terminate their philanthropic involvement. Erecting a “reflection buffer” before transferring other life experiences to their philanthropic domain might therefore be valuable.

One example of a transfer that may or may not be helpful is an individual’s decision making rules. As one informant told us “When I make a business investment, I am concerned about the maximization of financial returns in my investment. But when I make a philanthropic investment, all that I care about is that the nonprofit organization can make ends meet while achieving its
goals.” So in the philanthropic context they do not maximize financial returns, but instead seek what our informant referred to as a kind of “break-even” point such that the cause they care about may be sustainable. There was broad agreement that philanthropy was different in this way, yet what seemed more problematic for our interviewees was unpacking the notion of what it meant to ‘break-even’ and thus what might constitute an appropriate level of investment and its associated level of risk. This struggle associated with defining operational risk is made more severe when one’s impact risk is not well defined, and thus no decision rules may be properly evaluated.

Our data show that the position is further complicated by the notion that there appeared to be different criteria applied when asking the question “why should I invest?” from “why shouldn’t I invest?” One participant told us that “I worked hard to earn my income, so I do not want it to be wasted,” but in the course of the conversation it became apparent that the avoidance of waste was rarely considered as a key criteria for saying yes to a project. Rather this appeared to be a major criterion in saying no. This was a theme repeated consistently in our interviews; philanthropists seemed to have two distinct sets of criteria. This dichotomy matters for two reasons; firstly that Kahneman and Tversky (1979) tell us that philanthropists will pay a disproportinate amount of attention to the negative list and secondly, the negative list is often comprised of factors associated with a high degree of ambiguity e.g. what constitutes “waste”?

The judgment about what constitutes “waste” may again be determined through the principle of anchoring, but the difficulty for those new to philanthropy is that they frequently have nothing to anchor to as nonprofits operate in a different way to either businesses or the public sector.
Administration costs, for example, were frequently mentioned as a cause for concern, yet administration in the nonprofit context is inherently more complex than in business, making it inappropriate to anchor to that context (Murray, 2010).

Individuals new to philanthropy are thus ill placed to take decisions on what constitutes management “waste” or “inefficiency” as their business or public sector anchors no longer apply. We therefore recommend that philanthropists be encouraged to consciously reflect on what they are anchoring against and the hidden incompatibilities of such anchoring. From the perspective of risk it would be better to avoid comparisons at all than to adopt those that are ill-suited to the task. As one reflective participant put it, “comparing apples to oranges is not necessarily better than comparing apples to nothing.”

Conclusions

This paper has identified five major barriers that development philanthropists must overcome in order to properly manage risk in their philanthropy.

Properly defining risk in development philanthropy is of chief importance, as it is different from how both traditional decision making theories and for-profit managers define risk (Shapira, 1994). To our knowledge we are the first to study the domain of development philanthropy and delineate impact, operational or assessment risks and how to manage them.
Our findings suggest that individuals anchor their risk assessment in philanthropy on their past professional and personal experience. In becoming a professional philanthropist they must therefore properly overcome the “anchoring and under-adjustment” heuristic and adjust properly to the context of each giving decision. Our data have suggested three ways in which this might be accomplished; encouraging reflection on the fact that anchors exist, the provision of new anchors, and the selection of projects where one’s existing anchors might be more appropriate. In the case of the latter solution, individuals can then be encouraged to take risks that are progressively outside of their comfort zone.

Donors have the same high sensitivity to probabilities close to “impossibility” and “certainty.” However, much of giving focuses on bringing a project with a high probability of success to certainty, instead of bringing an otherwise impossible project to a slight chance of success. We suggest that greater attention be played to the latter, with nonprofits framing their need to take account of individual sensitivity to probability where the value is close to zero.

Individuals are more sensitive to perceived losses than they are to perceived gains. This matters since they also expend significantly less cognitive effort in identifying their gains. To take more risk philanthropists need to be encouraged to reflect on why their philanthropy is intrinsically motivating to them and thus identifying all the gains it delivers.

Individuals should also be persuaded to invest the time necessary to gain domain specific knowledge before participating in philanthropy. They need a fundamental understanding of how it might differ from others they have worked in and thus how they can adapt their previous
knowledge, competencies and networks to greatest effect. Those taking this time will be better equipped to take decisions and perhaps tolerate a higher degree of risk.

There is a similar need to ensure that those new to philanthropy recognize their natural aversion to ambiguity. While it will be perfectly natural to seek out anchors to use in reducing that ambiguity, in the context of social innovation it will be highly unlikely that appropriate anchors will exist. Where that is case it would be better to avoid comparisons completely than to take decisions based on inappropriate numbers.

Limitations

The limitations of a grounded theory approach are well documented (Goulding, 2005). While our findings appear to fit well within the extant risk and nonprofit literature, care must be taken in attempting to generalize our findings to other risk or philanthropic contexts. Further, perhaps quantitative work, would be necessary to test the contributions that we offer to theory above, although it must be acknowledged that gaining the requisite access for such a study may prove problematic.

Further work would also be helpful to understand how our findings might play out in collective decision making contexts such as giving circles (Eikenberry, 2009). It would also be helpful to explore how peer groups, support organizations and perhaps educational interventions could be
used to overcome the five barriers we delineate (Brown & Kalegaonkar, 2002). Finally, ways
must be found of integrating a deeper understanding of how individuals conceptualize risk into
accountability and performance evaluation systems. Such a step would be helpful in encouraging
a level of risk taking more optimal for both the focal philanthropist and their chosen
beneficiaries.

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RISK PERCEPTION AND MANAGEMENT IN DEVELOPMENT PHILANTHROPY

Introduction

The elimination of poverty is the No1 goal outlined in the United Nation’s sustainable development agenda 2030 (United Nations 2016). It is also the focus of numerous NGOs and charities, as well as development assistance programs from governments (Pratt et al 2006). In its broadest sense, poverty is defined as a failure of basic human capability to function in society (Nussbaum and Sen, 1993). It could be caused by a complex array of problems such as “inadequate income or education, poor health, insecurity, low self-confidence, a sense of powerlessness or the absence of rights such as freedom of speech” (World Bank Institute, 2005).

In this paper, we use the phrase international development to describe any effort that is exerted to grow human capability to function in society. Economic growth, although an important factor in eliminating poverty, does not address poverty elimination in this broader sense (Dollar, et al, 2013; Dollar and Kraay, 2002). This paper focuses on unblocking a key barrier that prevents many countries from alleviating poverty, namely a “lack of innovation” in the systems that foster human wellbeing (Sachs, 2005). We chose this focus because of its importance. In a study spanning two decades which examined differences in attained poverty reduction Sachs (2005, p62) concluded that “the innovation gap is certainly one of the most fundamental reasons why …
countries have diverged and why the poorest of the poor have not been able to get a foothold on growth."

It remains unclear though who might be best placed to invest in the requisite level of innovation and to accept the risk inherent therein. So how might one foster that innovation?

Government officials in developed countries are often unwilling to take significant risk with public money because failure can potentially end or at least stall their careers (Powell & Steinberg, 2006). Government officials in impoverished countries do not have sufficient tax income in order to invest in innovation. They seek foreign assistance to carry out even the most basic governance functions (Pratt et al. 2006). Equally, established international foundations or non-profit organizations can find themselves constrained because of their missions, values and the risk aversion of key stakeholders (Stauber, 2001; Brown & Kalegaonkar, 2002).

It has also been argued that for-profit inventors cannot adequately address innovation because "even if these inventors are able to develop new scientific approaches to meet local economic needs, the chances of recouping investments in research and development through latter sales in the local market are very low. The local purchasing power to buy a new product is tiny, and will not provide for sufficient profits if an innovation is successfully brought to market." (Sachs, 2005, p.61). Though there have of course been notable exceptions (see for example, Sargeant 2010). Dorado (2006) argues similarly that enterprise can’t take the kind of risks necessary to bring about systemic change even if it can sometimes lead to small scale and local innovation.
So who might that leave? One of the major conclusions of a Rockefeller Foundation summit held in Bellagio in Nov 2011, on The Future of Philanthropy and Development in the Pursuit of Human Wellbeing, was that the perception and management of risk in the development “system” may be an issue. While there are obviously many relevant development actors, participants felt that philanthropy could become more accepting of risk in international development, cognizant of what might be a distinctive contribution to the development of long-term eco-system sustainability (Bellagio Initiative, 2012). Participants felt that individual philanthropists (in particular), could be much more accepting of failure and recognize that to achieve genuine change much of their resource may be “wasted” along the way. Failure, participants argued, should be seen as the acceptable cost of innovation (Bellagio Initiative, 2012).

However, there is evidence that many philanthropists are not willing to take risks with their philanthropy. The Bank of America and Center on Philanthropy (2012) study tells us that virtually no high value philanthropists want to take substantive risks with their philanthropic assets (a mere 2.3%). Equally, a previous iteration of the same study tells us that philanthropists are actually more risk averse with their philanthropic assets than they are with their personal financial assets. Some 26% reported not being willing to take any risks with their philanthropic assets, compared with only 10% who took a similar view of their other financial investments (Bank of America and Center on Philanthropy, 2010). There is also much anecdotal evidence that supports these findings with many sector leaders suggesting that large scale development philanthropy has failed and that a greater degree of vision and risk taking is now necessary (National Committee for Responsive Philanthropy 2010). Howard Buffet, for example, has called on his peers to take more risks and focus on longer-term solutions, although recognizing
that not all organizations are equally well placed to do so. In his view “a private family 
foundation is in the best position of anyone to take risks. (They) don’t have to worry about 
making donors happy. (They) don’t have to fund raise,” (cited in Forbes, 2013).

In the study that follows we take no stance on whether individual philanthropists should take 
more risk in their philanthropy per se. Nor do we mean to suggest that encouraging 
philanthropists to take risk is necessarily preferable to risk taking by other actors. Rather we seek 
to understand how individual philanthropists conceptualize and manage risk in their giving with 
the goal of delineating how individuals could engage in more informed decision making and 
arrive at a perspective and an approach that is right for them.

To do this we use a Decoding-the-Discipline approach (Pace and Middledorf, 2004) to reach 
greater clarity on how risk is defined by development philanthropists, the perceived barriers they 
need to overcome in order to anticipate and manage such risks, and how they might be able to 
optimize the value delivered by their risk management practice. We will conclude with further 
insights on how the development sector might help promote and support higher risk-taking in 
individual philanthropy and the circumstances where that might be appropriate.

**Methodology**

We chose to use the Decoding-the-Discipline interview procedures (Middendorf & Pace, 2004) 
guided by the principles of grounded theory (Glaser and Strauss, 1967) in this research for
important pragmatic and epistemological reasons. Pragmatically, our literature review did not identify any research on how risk is defined or managed by high value philanthropists. We define high value philanthropists as those who have given over $5 million in personal resources to the task of (in this case) international development.

While much has been written on the topic of risk in the discipline of psychology (e.g. Slovic 2010) and business risk management (e.g. Shapira, 1995), surprisingly little research exists on how entrepreneurs (with the exception of Koellinger, et al 2007; Kumar, 2013) or social entrepreneurs (with the exception of Ellis et al., 2012; Miles et al., 2013; Phillips, 2005) perceive or manage risks. The Bank of America and Center on Philanthropy study (2010, 2012) focused only on financial risks relying on its common definition, without asking how philanthropists define the concept of risk. We thus opted for a “purist” approach in the application of grounded theory (Dunne, 2011). That is we did not then conduct an extensive search of the literature on the psychology and general management of risk prior to data collection.

Both authors are however aware of the existence of this literature, making it impossible, phenomenologically or hermeneutically, “not bring any a priori knowledge” on risk into the project (Locke, 1996, p. 242). In that sense, we adopted recursive analytic operations (Locke 1996) in our application of grounded theory. That is our data collection, analysis and interpretations occurred in a recursive cycle where data collection and data analysis occurred simultaneously (i.e. constant comparison) and where decisions about which data should be collected next were determined by the theory that was being constructed (i.e. theoretical sampling) (Glaser & Strauss, 1967; Glaser, 1992; Dunne, 2011). The nature of this
epistemological approach is important. It means we then permit data to dictate the development of our substantive theory (i.e. on risk in international development philanthropy), while at the same time we allow existing theoretical concepts (i.e. general psychology and management of risk) to earn their way into our “narrative” (Dunne, 2011). In this sense existing theory is analyzed as an additional informant and we treat it as such below by presenting extant thinking alongside our data (Glaser, 1978).

We conducted a series of twenty 60-90 minute telephone interviews with high value philanthropists drawn from Africa, Asia, Europe and North/South America. Initial participants were recommended for their expertise in managing philanthropic risk by the funders of the study (the Rockefeller Foundation and the Resource Alliance). Only two informants had attended the Bellagio summit, the goal being to canvas as wide a spectrum of opinion as possible. Additional informants were sought as the project unfolded. Each philanthropist had devoted personal wealth in excess of $5million to the task of international development. The sample comprised a mix of different ages (40-80) and genders (10 male and 10 female). It also includes individuals with first, second or third generation wealth. Some of them made their own wealth, while others inherited it. These individuals were giving through a variety of mechanisms, but primarily through Private and Family Foundations and Venture Philanthropy. Each interview was digitally recorded, transcribed and subject to a review based on grounded analysis.

In structuring the interviews a Decoding-the Discipline (DtD) approach was adopted. Althaus (2005) argued that research on risk could benefit from a “disciplinary perspective.” DtD is a pedagogical research tool originally designed to help instructors aid students overcome “bottlenecks” in order to think like a disciplinary expert (Middendorf & Pace, 2004). The DtD
approach assumes that people, who are experts in their field, become experts because they are extremely good at what they do. One consequence of being extremely good, however, is that the thinking process that they use to become an expert becomes so natural to them that they rarely need to think about how they do things or reflect on the major barriers that they need to overcome in order accomplish something. It becomes second nature to them, making it difficult to isolate learning that might aid others to cope in similar scenarios. DtD is thus suited to scenarios where it is necessary to uncover or decode expert ways of thinking that are not intuitively obvious, even to the informant.

In this approach, the interviewer focuses on barriers or “bottlenecks” that experts need to overcome in order to achieve a goal. We therefore asked our interviewees to “recall an experience where they deliberately took a higher than normal level of risk or where they had to cope with a difficult consequence of having taken a risky decision.” Then, the interview focused on teasing out the steps that such individuals go through in taking these decisions. Interviewers continued to probe until the subject would typically conclude that “I cannot tell you what I thought about, I just did it.” The interviewer then encourages respondents to reflect on additional memory cues (e.g. how they were feeling at that moment, who they were with, what they might recall about the surroundings) to stimulate a deeper level of reflection and allow participants to truly deconstruct their thinking processes and reformulate how they approached each dimension of the focal decision (Díaz et al., 2008).

Following Glaser (2001) interviews continued to the point where no new learning was accruing. At this point a concept has been theoretically saturated. There are differing perspectives on the minimum number of interviews that might be deemed sufficient for this saturation to occur (e.g.
Bruce 2007; Guest et al 2006) but we allowed the final size of the sample to be dictated by our data. In this respect we follow Francis et al (2010) who propose a “10+3” formula to establish data saturation. Specifically, at least ten interviews are to be conducted followed by a further three to evaluate if any new insights are being produced. This rolling, “last three sample” is conducted after each successive interview after the tenth. Two assessors were involved in this evaluation.

Results

In the course of our interviews we delineated five barriers that our informants needed to overcome in order to clearly define what risk means and how to manage it, such that they may take the “right” kind and the “right” severity of risks in order to create impact in caring for their beneficiaries. The DtD approach dictates that we took people back to the experience where they experienced the most difficulty or highest level of arousal in managing their risks and then traced the progression of their experience chronologically. It is hence possible that the seemingly logical steps that we identified in this paper are due in part to the method of posing chronologically sequenced questions.

It is also important to note though that in mapping out barriers below, that the process was not always experienced in a linear fashion and not all barriers were experienced by all participants. It was also clear that people do not go through the five barriers only once; they sometimes needed to iterate different steps and in different orders. Thus while we are cognizant of the possible
weaker in our approach we do not believe the categories below are a function of our methodology. They could be raised multiple times in a conversation and in different sequences.

Throughout our discussion and in the discussion of the fifth barrier in particular, we will describe the iterative and integrated nature of how our interviewees overcame these barriers. We will conclude with a brief summary of how these findings can be used to design interventions to support risk optimization in individual philanthropy.

**Barrier 1: Defining What Risk Means**

The primary risk in international development philanthropy was felt to be the risk of not achieving the *desired* impact for the *focal* beneficiary group. This is what we shall refer to hereafter as **Impact Risk**. It is composed by both a sense of ambiguity and a sense of uncertainty (Einhorn & Hogarth, 1985). It is important to understand that this definition implies that the articulation of impact risk is subjective and personal to a philanthropist. This is consistent with previous conceptualizations (e.g. Slovic, 2010) but our research describes more precisely the nature of how international development philanthropists subjectively define their risks.

First, it is often difficult for philanthropists to articulate how they define impact (thus creating uncertainty) and in many cases their definitions morphed substantively as they learned more about what was necessary in a given context. One of our philanthropists, for example, originally defined her impact as managing the pain of terminally ill children in the focal community. This
later morphed into successfully caring for the parents, family and community who suffer alongside the children, and then ultimately to transforming the education of medical doctors in the country such that palliative care could become a routinely considered option.

Second, it is often difficult for philanthropists to decide \textit{a priori} how to design an effective social innovation system (i.e. selection of appropriate intervention(s) and the design of an appropriate system for delivery) to achieve the desired impact (Liedtka & Ogilvie, 2010). This design too might need to morph as the program proceeds, often creating further and frequently, heightened uncertainty. This is what we term \textbf{Operational Risk}. High operational risk in international development philanthropy is caused primarily by the degree of innovation in the design of the intervention itself. Consistent with previous literature, the more philanthropists rely on pre-tested ideas and avenues commonly agreed to be effective, the lower the perceived risk (Murrey, 2010).

Returning to our previous example, in seeking to reduce the pain experienced by terminally ill children our philanthropist perceived relatively little operational risk when the impact she conceptualized was merely the provision of palliative medicines (a simple matter of distribution). This morphed over time into finding innovative ways to influence the established perspective on medical ethics in the country where resulting to palliative care was regarded as an admission of failure and therefore rarely offered.

Finally, the lack of evidence or the provision of tangential or partial evidence in support of the success of an initiative can also create a source of risk. This includes the selection of relevant metrics, the data gathered and their interpretation. This is what we term \textbf{Assessment Risk} and
the construction of the right assessment approach may also need to morph as the program proceeds. Assessment is where most nonprofit risk literature focuses (Paarlberg & Meinhold, 2012; Thomson, 2010), however, most of this extant work focuses on the reporting of established organizations (rather than start-ups) and fails to address the relationship with the other categories of risk we delineate (Lee et al., 2010).

Our philanthropist was initially very confident that she knew what to measure and how to measure it (i.e. counting the number of children aided.) “When we started out, I was running it like an investment bank. There were targets to be met, and the targets were basically established by me.” As the project progressed the identification of appropriate metrics became increasingly problematic. It transpired that the medical profession was highly resistant to change and that the only way to influence the profession was through the opinions and actions of the nurses caring for the patients and their families. As the nature of the intervention morphed, so the search for appropriate assessment measures morphed and this in turn (ultimately) helped shape her conceptualization of her impact risk. “We realized we could not focus on doctors and the actions of doctors because that was ineffectual. Rather we had to focus on other influencers in the caregiving process.”

Considered together (see Table 1) our research therefore reveals a complicated picture of how international development philanthropists define risks: three discrete categories of risk, but with the ambiguity and uncertainty in each capable of generating further ambiguity and uncertainty in others (Einhorn & Hogarth, 1985).
Other risks concerning philanthropists engaged in international development include financial risks, reputational risks, political risks and personal risks. These other risks however were never described as the “core,” “fundamental,” or “most important,” risks that troubled them. In the majority of our cases, these other types of risks concerned philanthropists because they increased their impact or operational risk. The reduction of these other risks was never mentioned as an end in itself. Our cases did not contain reference to any other risks.

Barrier 2: Determining What Degree of Risk is Acceptable

Slovic (2000, pxxxvi) concluded after 50 years of research on risk perception that "there is no such thing as … objective risk." "Risk (similar to organizational effectiveness) is inherently subjective” and a function of many different variables, notably the background, personality and experiences of the individual (eg Sung & Hanna, 1996; Grable & Lytton, 1998). Risk takers, in the broader population, are “psychologically flexible”, better educated, have a high tolerance for ambiguity, a past record of successful risk taking and respond rapidly to stimuli (Trimpop, 1994). Indeed, several studies have found that up to a quarter of the variation in risk taking by individuals can be explained by personality variables (Coleman, 2007).
People also take decisions in part about the risk they are prepared to tolerate by drawing on other life experiences, even if these are drawn from other contexts where the circumstances and rules of the game are very different. They also tend to over-emphasize conclusions drawn from recent experiences (Zackay, 1984) and place more emphasis on the consequences of decision outcomes than on their statistical probabilities (Forlani, 2002).

One widely studied decision making heuristic appears to influence most aspects of how philanthropists assess risk. The heuristic we are referring to is termed anchoring. Kahneman and Tversky (1974) found that people often make numerical judgments by anchoring on a number and then adjusting for other things that they know. But on average, people under-adjust. In philanthropy what was identified in our study, was that this heuristic can be helpful or harmful to risk assessment depending on the nature of such anchors, the specific context of the philanthropic decision making and the extent to which the individual appropriately adjusts. From our discussions, for example, it was clear that many of our participants had used anchors drawn from their experience in business and the public sector and thus, as it turned out (Epley & Gilovich, 2005), anchors that were inappropriate to the practice of philanthropy.

So how does this happen? The first task that philanthropists appeared to face when making decisions about how much risk to take in a given philanthropic engagement was to determine the magnitude of both impact and to a lesser extent financial risks. In respect of impact risks, our philanthropists tended to term the following types of projects high-risk projects; circumstances where:
a) Outcomes are hard to measure
b) Accurate measurements are hard to obtain
c) Positive measurements may only show up in a long-term time horizon.
d) Outcome measures are not endorsed homogeneously by all relevant parties.

In respect of financial risk they consider the following factors in determining the level of risk:

a) How risk-diverse is their philanthropic portfolio
b) Where does a particular philanthropic investment lie in their philanthropic profile
c) How big is a particular philanthropic investment?

There are echoes of these points in the wider business risk and judgment and decision making literature where it is well established that the more ambiguous the probability of success is, the less likely one is to perceive such endeavors as risky, the more risk-diversified one’s portfolio is, the more likely one is to tolerate risk and the larger a particular investment is, the higher the risk it is perceived to carry (Slovic, 2000). Our research identifies that these are the critical factors in the domain of philanthropy.

We also gain new insight through combining knowledge of anchoring and under-adjustment with context specific knowledge about how philanthropists define impact and operational risk. We can thus begin to answer questions such as how “hard” is hard, how “long” is long, how “diverse” is comfortably diverse, and how “big” is too big?
We found that philanthropists use their own previous experience to anchor their judgment about philanthropic risks, and they do so along the dimensions we mention above. For example, for someone who has been engaged in the world of venture capital in medical research, they will be used to making large investments over significant time horizons where the outcomes may not be known for many years and where the side effects of any new drugs may be hard to quantify. The likely outcomes from their philanthropy may be similarly hard to quantify, and they thus see the impact risk as moderate, but if the size of the investment is significantly smaller and the time horizon shorter than they are used to, they will be inclined to see less financial risk in their giving.

What this means is that they weight their risk assessment more heavily on their past experience than they should and take less account of the “real” risk in the context of their philanthropic decisions. For example, for a Venture Capital professional, when he decides to become a philanthropist, he may engage in “unnecessarily” high risk philanthropy, simply because he is used to high risk, while an industrialist may engage in “unnecessarily” low risk philanthropy, because she is not comfortable with higher degrees of risk. From this perspective, past professional experience might become a foe not a friend in determining the optimal risk to take in their philanthropy (see also Zackay, 1984).

To encourage individuals to improve their philanthropic decision making they have to be encouraged to set aside value judgements and their associated anchors from their prior experience (in business) and to consider philanthropic decisions afresh. Hermansson (2012), for example, argues that “even though every ‘objective’ risk can be described in several different
ways, and does involve value judgements and emotions, the (search for) objectivity ideal should not be abandoned.” (Hermansson, 2012, p.16) Thus if an individual wishes to become a full time philanthropist a process of education must take place. Individuals need to be given new anchor points appropriate to the sector they will now be working in, perhaps through the establishment of networks that allow philanthropists and development professions to share experiences and communicate new norms.

“Just being in philanthropy itself (isn’t enough). You have to have the field expertise, right, so I may be concerned about reducing nuclear weapons, but you know, I need then to go to people who spend their lives understanding possibilities for reducing nuclear proliferation. I think people think that once they’re in the role of philanthropy, they’re in. Good intentions won’t do it. They forget that it calls for expertise.”

“All six of us (in the same giving circle) come from business and cooperate background and tended to apply that business logic. “Why should we be doing this?” And some times during the process we needed one of us to step back and say, “This is crazy”. We are here to give away our money... we should allow ourselves to take a much greater amount of risk and take a vow to give away this money rather than be protective....”

An alternative approach would be to encourage philanthropists to engage in a greater degree of reflection. The goal here isn’t to change the anchor, rather to ensure that the individual adjusts
correctly. Individuals need to be helped to realize how their (sometimes irrelevant) past experience influences their risk assessment in philanthropy, so they may adjust properly and arrive at a more mature assessment of the risk at hand.

“Let’s say that their spouse or child gets cancer. Giving can be a personal reaction. They just don’t think any further on it. They are just giving to the cause because of a person or connection. And somewhere along the way they start asking questions about what the organization is doing and then they get a bit appalled (because of their business expectations). Then they might be more discriminating about their giving. Then when they get to my stage they start to realize that each organization they are giving to is a distinct philanthropic gift as opposed to a commercial investment. So I think it is a learning curve that we all have to go through.”

A third potential approach would to be help philanthropists identify projects that have a better fit with the levels of risk they are comfortably used to taking. Philanthropists can match themselves to the right causes, or the right causes can seek out the right philanthropists. The individual can then be encouraged to take rational small steps out of their comfort zone. The idea is presented graphically in Figure 1.

If a philanthropist is comfortable with accurately adjusted risk assessment at level 1, in order for her to take up additional risk, the best way to encourage that is to find a project that is at level 2 and move her up the scale. She would be uncomfortable and may even refuse to invest directly in
projects perceived as level 5 yet lower levels may be acceptable. Individuals from different professional backgrounds will be more or less risk tolerant and thus arrive at a different level in the model.

Insert Figure 1 Near Here

**Barrier 3: How to Decide When to Shift Mindset**

Kahneman and Tversky (1979) found that when individuals are deciding whether or not to take a risk they are most sensitive to changes in probability near the natural boundaries of 0 (impossible) and 1 (certain). Thus, a 0.1 increase in the probability of making a social impact has a greater impact on decisions when it changes the probability of making an impact from zero to 0.1 (from impossibility to a slight chance of making an impact) or from achieving a definite impact to a slight chance of something going wrong (i.e. from 1.0 to 0.9). Consider the following philanthropic examples. In our first scenario a philanthropist believes there is a 70% chance of an organization achieving a social impact without their help and an 80% chance if she offers it. She will be much less likely to offer her support than in a second scenario where there is a 10% chance of success with her help and none without it.

Our interviewees felt that many new philanthropists were taking decisions in the realm of 0.9 to 1.0 where with the proper metrics they could approach certainty in respect of the outcome they
desired to achieve. At the same time, there would also seem to be an opportunity to focus on the other end of the scale, where there is zero probability of achieving a social impact without a philanthropist’s involvement. Theory predicts that philanthropists will be as likely to engage in this latter scenario, so the issue for innovation projects becomes one of framing.

To illustrate – one of our interviewees explained that each and every one of his program ideas had been tried by other organizations before and met with failure. What attracted him was the ability to combine these ideas and have them tackled by a single entity. In aggregate the risk was therefore very substantial, but he believed that a multi-faceted approach had a “slim” chance of working. He was in a unique position to be able to try that approach and thus create something from nothing. That is what ultimately drew him to the project. Kahneman and Tversky explain this behavior and suggest that this philanthropist would have been less likely to invest if the previous interventions by other organizations had been met with mixed success.

A number of our philanthropists elected to “balance” their giving by selecting some projects which approached certainty in their likelihood of success (and thus seen as “low hanging fruit”), but adding project(s) where the probability of success is close to zero, but where the potential gains are highly desirable. They thus adopted a portfolio perspective, consistent with general risk theories.

Our interviews suggested a further option, namely focusing on the role of the individual philanthropist, rather than the project per se. There are many scenarios where the project will only have impact if a particular philanthropist gets involved. If a nonprofit can make it clear that
there is a close to zero chance of the project happening without ONLY this one individual’s support they can increase the likelihood of giving. Our data indicated that it was not enough for this matching to be superficial. Many individuals might be able to offer the focal amount or share a genuine passion for the cause. The notion of a match only became believable when distinctive knowledge and competences were sought. Figure 2 illustrates the idea.

Insert Figure 2 Near Here

It may be rare that a philanthropist would be willing to immerse themselves in a project and provide all the elements we list in the box, but it was clear from our interviews that some combination of the talent they bring to the table may on occasion be distinct. What interests us this approach is that while such a tailored ask would be likely to increase the chances of support, it will also enhance the giving experience for the philanthropist (Bellagio Initiative, 2012).

There are also take-outs from Kahneman and Tversky’s work for individual philanthropists who can benefit from being aware of how their assessments of risk are framed. They too can seek better matches between their philanthropy and competences to achieve impact or identify personal development issues that might need to be addressed to get them to that point. They can also be cognizant of a natural tendency towards short-term gratification (Angeletos et al., 2001) rather than longer-term projects that might better serve both their needs and the needs of the community. As the quality of the individual fit improves, they should become more accepting of risk. As an example, one philanthropist wanted to donate some money to a charity that had “touched his heart”, but he never heard back from the organization with their bank details. He
concluded that “we could add a lot more value for them if we helped with their fundraising and donor management effort. Because we didn’t think that they had that at all.” So they then developed a program to help train nonprofit staff on fundraising management.

**Barrier 4: Coping With Negative Emotion**

Many of our informants reported a high degree of frustration with their early forays into the domain of philanthropy. They experienced frustration if success was not as forthcoming as they hoped and after successive “failures” were encountered, some of those we interviewed had actively considered withdrawing from the domain. As one individual commented “there just didn’t seem to be the personal rewards I had hoped for.” In this section we explore the source of that negative emotion and how reframing the issues might prove helpful.

In a philanthropic transaction, an amount of money is transferred from a philanthropist’s account direct to another’s account. There is nothing intrinsic to this transfer that is either a gain or a loss, so a philanthropist could view it as either. This transfer might be perceived as a gain when social impact is anticipated or achieved; and as a loss when an undesired social impact is created or a desired social impact is created unsustainably, or not at all. In this sense, the valuation of money is never a stand-alone valuation in the philanthropic context. The valuation of any financial input is always associated with the valuation of the achievement or anticipated sustainable achievement of the social impact. One reflected that “look, we are going to give this money away anyway but this is a better way of applying our philanthropic dollars. We don’t need any financial return but we do want to see the social and environmental return.”
To encourage successful risk assessment and management, our philanthropists explicitly articulated what would constitute gains and losses in terms of their resources. These resources may include financial, time and/or network resources. An explicit consideration of these issues has the potential to greatly enhance decision making since the philanthropists in our sample were typically 1) very good at articulating potential loses or gains for their beneficiaries, but not for themselves and 2) very good at articulating potential losses, but not as good at articulating all the potential gains.

In evaluating philanthropic impact, our philanthropists consciously considered social impact as a gain, and the nature of this gain is what concerns them most in their philanthropic involvement. Since this is the type of gain that they consider central to their philanthropic investment, they were almost always focused on refining it until when they could articulate it clearly. They acknowledged that this articulation may not have been clear at the inception of a project, but it was nevertheless something that they had made a conscious effort to do. One of our informants reflected that “for me I was always very strict. “Why don’t we have the results? Why don’t they want high marks? Is that the right impact ...?”

What was less obvious to some philanthropists was that personal impact (i.e. impact on them as an individual) can also be a gain. Most participants felt that personal gain was not why they entered philanthropy and they stopped their reflection at that point without necessarily asking themselves what consequence their philanthropy might bring to them. As selfish as this reflection might seem, our interviews revealed that those who had considered personal gains found much
more depth and personal value in their philanthropy, typically reflecting on the meaning of their life as articulated through their giving, the intellectual stimulation of trying to solve difficult and often intractable social problems, and/or the sustained enjoyment derived from developing their competence to contribute to social change (consistent with recommendations of economist, Andreoni, 1990).

“*I am really good at problem solving. A lot of social problems are really difficult to solve, and no one has been able to solve them before. My philanthropy offers me the opportunity to stretch my problem-solving skills to a place where they have never been stretched before, and that is exciting and fun.*”

Indeed there is evidence in the extant literature that “successful risk taking individuals are likely to believe that they can beat the odds ... and that they have special abilities” (West & Berthon, 1997, p. 30). Thus being given the opportunity to reinforce that identity can be a significant personal gain. Here, our philanthropists actually experience “more excitement and fun” in solving social problems, then solving problems in their business careers such as investment banking. This is because for them, “the social sector is maybe more challenging ... in many aspects than the private sector. It is no less rewarding, meaningful, fulfilling; in fact probably more so than working in the private sector.”

As obvious as this might sound, we found that if philanthropists did not focus consciously on what their giving achieved for them, their potential losses can begin to outweigh their gains. As a
consequence they can experience negative emotions and they are less likely to be accepting of development risk.

Barrier 5: How to Decide What to Transfer from Their Life Experience to Their Philanthropy

In comparison to the previous four barriers, this barrier would not in itself make-or-break one’s philanthropy. It is simply a learning journey that our interviewees consciously monitored and improved with time and experience. However, failing to overcome this last barrier simultaneous with overcoming the others could increase the perceived severity of the first four barriers and harm one’s overall risk-appetite for philanthropy.

Many participants in our study felt that one of the most important lessons they had learned on their philanthropic journey was the importance of gaining domain specific knowledge of the social problems they targeted and the need to gain higher competence in solving these problems. This higher competence could be derived from their experience in philanthropy, but it would more typically derive from understanding how to leverage their existing (perhaps business acquired) competences to tackle the social problem. That is to leverage the same general thinking skills but properly adjust to the right anchors in their thinking frameworks.
During the initial learning stage, when the development problems are not smoothly gelled with their existing competence, they experience a challenge to their sense of self-efficacy and as we noted above can become disheartened with the reality of how difficult it is to create and sustain social change. For some of our participants, early in their philanthropic ‘careers’ this feeling of powerlessness had led to a growing desire to terminate their philanthropic involvement. Erecting a “reflection buffer” before transferring other life experiences to their philanthropic domain might therefore be valuable.

One example of a transfer that may or may not be helpful is an individual’s decision making rules. As one informant told us “When I make a business investment, I am concerned about the maximization of financial returns in my investment. But when I make a philanthropic investment, all that I care about is that the nonprofit organization can make ends meet while achieving its goals.” So in the philanthropic context they do not maximize financial returns, but instead seek what our informant referred to as a kind of “break-even” point such that the cause they care about may be sustainable. There was broad agreement that philanthropy was different in this way, yet what seemed more problematic for our interviewees was unpacking the notion of what it meant to ‘break-even’ and thus what might constitute an appropriate level of investment and its associated level of risk. This struggle associated with defining operational risk is made more severe when one’s impact risk is not well defined, and thus no decision rules may be properly evaluated.
Our data show that the position is further complicated by the notion that there appeared to be different criteria applied when asking the question “why should I invest?” from “why shouldn’t I invest?” One participant told us that “I worked hard to earn my income, so I do not want it to be wasted,” but in the course of the conversation it became apparent that the avoidance of waste was rarely considered as a key criteria for saying yes to a project. Rather this appeared to be a major criterion in saying no. This was a theme repeated consistently in our interviews; philanthropists seemed to have two distinct sets of criteria. This dichotomy matters for two reasons; firstly that Kahneman and Tversky (1979) tell us that philanthropists will pay a disproportionate amount of attention to the negative list and secondly, the negative list is often comprised of factors associated with a high degree of ambiguity e.g. what constitutes “waste”?

The judgment about what constitutes “waste” may again be determined through the principle of anchoring, but the difficulty for those new to philanthropy is that they frequently have nothing to anchor to as nonprofits operate in a different way to either businesses or the public sector. Administration costs, for example, were frequently mentioned as a cause for concern, yet administration in the nonprofit context is inherently more complex than in business, making it inappropriate to anchor to that context. The reasons for this complexity are well documented (Murray, 2010), but include:

1. Nonprofits have very diverse stakeholders and must build and maintain relationships with all/most of them;
2. Ownership is often diffuse and there is therefore no clear priority among the stakeholders;
(3) nonprofits have more diverse sources of revenues than private businesses with each source requiring different management skills and strategies;

(4) nonprofits adopt participatory methodologies and tools. Many organizations are democratic and inclusive, being driven by the often conflicting voices of their membership.

Individuals new to philanthropy are thus ill placed to take decisions on what constitutes management “waste” or “inefficiency” as their business or public sector anchors no longer apply. We therefore recommend that philanthropists be encouraged to consciously reflect on what they are anchoring against and the hidden incompatibilities of such anchoring. From the perspective of risk it would be better to avoid comparisons at all than to adopt those that are ill-suited to the task. As one reflective participant put it, “comparing apples to oranges is not necessarily better than comparing apples to nothing.”

Conclusions

This paper has identified five major barriers that development philanthropists must overcome in order to properly manage risk in their philanthropy. To facilitate our discussion we have organized our paper in the logical order in which a philanthropist might encounter them but we do not mean to imply that the process is in any sense linear. As we noted earlier they can be met multiple times and in different iterations during an individual’s experience of attempting to solve a focal problem.
Properly defining risk in development philanthropy is of chief importance, as it is different from how both traditional decision making theories and for-profit managers define risk (Shapira, 1994). Traditional decision theories have defined risks as “the variance of the probability distribution of outcomes.” (Shapira, 1995, p. 43), while Shapira concludes that for-profit managers “show very little inclination to equate the risk of an alternative with the variance of the probability distribution of outcomes that might follow its choice.” To our knowledge we are the first to study the domain of development philanthropy and delineate impact, operational or assessment risks and how to manage them.

Our findings suggest that individuals anchor their risk assessment in philanthropy on their past professional and personal experience. In becoming a professional philanthropist or grantmaker, they must therefore properly overcome the “anchoring and under-adjustment” heuristic and adjust properly to the context of each giving decision. Our data have suggested three ways in which this might be accomplished; encouraging reflection on the fact that anchors exist, the provision of new anchors, and the selection of projects where one’s existing anchors might be more appropriate. In the case of the latter solution, individuals can then be encouraged to take risks that are progressively outside of their comfort zone.

Donors have the same high sensitivity to probabilities close to “impossibility” and “certainty.” However, much of giving focuses on bringing a project with a high probability of success to certainty, instead of bringing an otherwise impossible project to a slight chance of success. We suggest that greater attention be played to the latter, with nonprofits framing their need to take account of individual sensitivity to probability where the value is close to zero. Emphasizing the
unique contribution that a specific individual might make and tailoring the approach would increase risk taking.

Individuals are more sensitive to perceived losses than they are to perceived gains. This matters since they also expend significantly less cognitive effort in identifying their gains. To take more risk philanthropists need to be encouraged to reflect on why their philanthropy is intrinsically motivating to them and thus identifying all the gains it delivers.

Individuals should also be persuaded to invest the time necessary to in gain domain specific knowledge before participating in philanthropy. They need a fundamental understanding of how it might differ from others they have worked in and thus how they can adapt their previous knowledge, competencies and networks to greatest effect. Those taking this time will be better equipped to take decisions and perhaps tolerate a higher degree of risk.

There is a similar need to ensure that those new to philanthropy recognize their natural aversion to ambiguity. While it will be perfectly natural to seek out anchors to use in reducing that ambiguity, in the context of social innovation it will be highly unlikely that appropriate anchors will exist. Where that is case it would be better to avoid comparisons completely than to take decisions based on inappropriate numbers.

**Limitations**
The limitations of a grounded theory approach are well documented (Goulding, 2005). While our findings appear to fit well within the extant risk and nonprofit literature, care must be taken in attempting to generalize our findings to other risk or philanthropic contexts. We also acknowledge that our sample was small and while care was taken to ensure as diverse a group were interviewed as possible and that the conditions for theoretical sampling were met, it is possible that our group of informants were atypical. Further, perhaps quantitative work, would be necessary to test the contributions that we offer to theory above, although it must be acknowledged that gaining the requisite access for such a study may prove problematic.

Further work would also be helpful to understand how our findings might play out in collective decision-making contexts such as giving circles (Eikenberry, 2009). It would also be helpful to explore how peer groups, support organizations and perhaps educational interventions could be used to overcome the five barriers we delineate (Brown & Kalegaonkar, 2002). Finally, ways must be found of integrating a deeper understanding of how individuals conceptualize risk into accountability and performance evaluation systems. Such a step would be helpful in encouraging a level of risk taking more optimal for both the focal philanthropist and their chosen beneficiaries.
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Figure 1: An Incremental Approach to the Acceptance of Risk.
Figure 2: ONLY you can help

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<td>1</td>
<td>A target amount</td>
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<td>2</td>
<td>A passion for a cause</td>
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<tr>
<td>3</td>
<td>A valuable set of social connections</td>
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<tr>
<td>4</td>
<td>A contextualized understanding of the impact</td>
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<tr>
<td>5</td>
<td>A set of skills, knowledge and competences relevant to achieving impact</td>
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<tr>
<td>6</td>
<td>A set of skills, knowledge and competences relevant to reducing operational risk</td>
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Table 1: Definitions of Risk

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<th>Risk</th>
<th>Definition</th>
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<tr>
<td>Impact Risk</td>
<td>The risk of not achieving the desired impact for the focal beneficiary group</td>
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<tr>
<td>Operational Risk</td>
<td>The risk of not designing the optimal approach, program or mechanism for achieving the desired impact</td>
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<tr>
<td>Assessment Risk</td>
<td>The risk of not selecting the right data to measure performance, or misinterpreting the evidence provided by such data</td>
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<tr>
<td>Financial Risk</td>
<td>The risk for the philanthropist that the project will not deliver the magnitude of impact anticipated relative to the invested resource</td>
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