The Ethical Issue of Contemporary Philanthropy: Unintended Negative Consequences of Philanthropy

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ABSTRACT

This study is an attempt to explore the ethical issue of contemporary philanthropy by examining the potential negative consequences of well-meant philanthropic intentions. Research on ethical perspectives in philanthropy is still quite limited compared to that on for-profit organizations. This article reviews the philosophical concept of philanthropic intention and examines
several examples in which philanthropy has had negative consequences. This article then discusses various reasons for such unintended negative consequences: the supply-led character of philanthropy, failure of the assumed theory of change, a technocratic approach to problem-solving, the conflict between urgency and the sustainability of interventions, and negligence. In turn this article proposes a number of ways to prevent the occurrence of unintended negative consequences of philanthropy. The article aims to provide insights to philanthropists, not-for-profit leaders and staff, and fundraising professionals by helping them realize the multiple facets of the problems they try to solve and accordingly improve the design of their grants and philanthropic programs.

**Keywords:** Philanthropy, Ethical issues, Unintended negative consequences, Not-for-profit

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**INTRODUCTION**

The word philanthropy is rooted in the ancient Greek word ‘philanthropia’. Philanthropia is a combination of the words ‘philos’ for ‘loving’ and ‘anthropos’ for ‘human being.’ In the context of studies on modern philanthropy, its definition often varies depending on the individual scholars and their academic areas of specialization. Payton (1988) defined philanthropy as ‘voluntary action for the public good.’ Van Til (1990) defined it as ‘the voluntary giving and receiving of time and money aimed toward the needs of charity and the interests of all in a better quality of life.’ Salamon’s definition is ‘the private giving of time or valuables (money, security, property) for public purposes’ (Salamon, 1992).
Salamon’s definition is similar to the notion of ‘charity’. Payton and Van Til’s definitions have broadened the boundaries of philanthropy regarding its actors and sectors. Their definition includes efforts to apply philanthropy not only in the service of charitable causes but also to other causes such as the environment, medicine, the arts, education, and human rights. Further, this definition embraces individuals’ actions and those of organizations and corporations. In this article, we adopt the Van Til’s definition and involve a broad array of causes and actors.

The philanthropic actors are individuals, foundations, philanthropic organizations, and businesses that engage in ‘corporate giving’ (Schuyt, 2010). Nongovernmental organizations (NGOs) are also featured in this cast. The agents/organizations including foundations and NGOs that act on philanthropic intentions are collectively called ‘not-for-profit.’ Research on ethical perspectives in philanthropy is still quite limited compared to that on for-profit organizations (see e.g. recent review article on Business Ethics by Moriarty, 2016). In particular, the field of marketing by private corporations is one that generates considerable debates on ethical issues (Vassilikopoulou, Siomkos & Rouvaki, 2008). The existing philanthropy literature has mostly focused on the motives of donors, management of not-for-profit organizations, and fundraising strategies. It developed in response to the greater interest of not-for-profit organizations in efficient and effective management and to the competition for limited resources among not-for-profit organizations, especially at times when economic hardship has resulted in fewer resources.

Philanthropy is an important source of financial support for social change (Kayser & Budinich, 2015). A wide range of normative questions can be raised about the practice of philanthropy, but research in the not-for-profit context has not addressed the subject of ethics to a significant extent (Agarwal &
Malloy, 1999). In particular, research on the consequences and impact of philanthropy has not been paid sufficient attention. One of the reasons why research on the potential negative impact of philanthropy has not been well-documented is that not-for-profit organizations typically have not yet embraced qualitative and quantitative impact measurement methods and resources despite the recent emphasis on impact measurement. Also, not-for-profit organizations are concerned about current and potential donors’ response to such information. Indeed, if such evaluations were to demonstrate a negative impact of these organizations’ activities, they could face donor criticism and potentially encounter major obstacles to fund-raising.

Compounding the reluctance of not-for-profit organizations to measure their impact, the general public tends to make the assumption that the not-for-profit sector operates ethically. This rationale provides a less compelling environment for researchers (Agarwal & Malloy, 1999). Jeavons (1994) suggested that “the basis for much of these organizations’ support is the expectation that they will be vehicles for building a more caring, more just society.” Due to this traditional assumption, when unexpected scandals arise in the not-for-profit sector they give it a more negative reputation among the public compared to scandals in the for-profit sector.

The purpose of this study is to explore the ethical issues of contemporary philanthropy by examining several cases of unintended negative consequences of philanthropy and analyzing their reasons. Specifically, this study focuses on identifying unintended negative consequences along with the supply-led character of philanthropy, failure of the assumed theory of change, a technocratic approach to problem-solving, the conflict between urgency and the sustainability of interventions, and negligence. This study will provide decisionmakers and policy-makers with
strategic insights to properly handle the ethical issue of contemporary philanthropy.

PHILOSOPHICAL CONCEPTS

The ethical justification of philanthropy can be approached from the viewpoints of two philosophical strands: the deontological and the teleological ethics.

Deontological theory

Deontological theories focus on processes rather than results. Kant (1964) argued that no action has moral worth unless it is undertaken with a sense of duty. Winfrey (1998) argued that two elements are required for the moral credit of an action. First, the motive for the action must be one of duty to a principle for its own sake. Second, the principle itself must be worthy.

Teleological (or consequentialist) theory

The consequentialist theory of ethical reasoning concentrates on the consequences of human actions, i.e., all actions are evaluated in terms of the extent to which they achieve desirable results. Accordingly, the concepts of right or wrong, and duty are subordinated to the concept of the end or purpose of an action (Donaldson & Werhane, 2002). The most advocated consequential theory is that the right action must maximize the overall good. That is, it must maximize the good or minimize the bad from the standpoint of the entire human community. This theory finds its roots in the utilitarianism of Jeremy Bentham and John Stuart Mill. The utilitarian perspective later evolved by broadening the meaning of the term good to include other things, such as knowledge, moral maturity, and friendship, which philanthropy pursues.
How can philosophical theories be applied to philanthropic impacts?

The teleological and deontological perspectives on ethics provide a general basis for judgements as to the morality of philanthropical decision making. Here are two examples of questions that can be raised to justify unintended negative impacts of philanthropic actions:

- From a utilitarian perspective, can a person be exploited for the sake of the greater good of others in the course of philanthropic decision-making?
- From a deontological perspective, can negative results nevertheless be justified by the good principles of the process followed in the course of philanthropic decision-making?

This study does not purport to argue for the superiority of the philosophical perspective to justify the results of philanthropy -- whether positive or negative. Rather, our purpose is to bring up issues to which too little attention has been paid and to reflect on their causes and implications.

UNINTENDED NEGATIVE CONSEQUENCES OF PHILANTHROPY

Even though philanthropic institutions plan their programs well before they put them into action, they can produce unpredictable negative impacts. Carnegie (1906) mentioned the potential negative impact of philanthropy by stating that “of every thousand dollars spent in so-called charity today, it is probable that nine hundred and fifty dollars is unwisely spent; so spent, indeed as to produce the very evils which it hopes to mitigate or cure.”
Merton introduced the concept of ‘dysfunction’ which occurs when the effects of an institution undercut the accomplishment of a beneficial purpose, in contrast with the concept of ‘function’ which refers to the accomplishment of a worthy societal purpose. He emphasized that “the consequences intended by actors do not necessarily ensue from a purposeful action” and mentioned that motives and purposes are “often erroneously merged with the related, but different concepts of the objective consequences of attitude, belief, and behavior” (Merton, 1968). The notion of dysfunction in contemporary philanthropy thus applies to the unanticipated ‘negative impacts of philanthropy.’

Damon (2006) identified the potential harms of misguided philanthropy, namely “ill effects that can create serious damage to recipients, donors, and the society beyond them”. He distinguished several categories of philanthropic harm: causing direct harms to lives, subverting valuable work of individuals and nonprofit organizations, destabilizing communities, and blocking genuine social improvements. To illustrate the above perspectives and concerns we present three examples of unintended negative impacts of philanthropy.

**Case 1. Solar Panel Supply in Haiti**

As stated by a local manufacturer of solar panels in Haiti, “before the earthquake we sold an average of 50 street lights a month. After the earthquake over the period from January to June, we sold only 5 street lights. Indeed, after the earthquake, we were competing with NGOs which were coming with their solar panels and solar street lights. They are giving them for free. What about the local businessmen? What do you expect them to do? Did you ever talk to those people who were giving? ...When it becomes an industry of its own, the industry of charity, it creates more harm than good to the country.”

The above is an example of unintended negative impact resulting from NGOs’ philanthropic activities in post-earthquake Haiti in 2010. Large numbers of NGOs arrived in Haiti, all with good purposes. Some of these NGOs provided for free complete solar panels procured overseas to solve the energy shortage. This resulted in disruption of the business of a local solar panel manufacturer who had developed solar panel technology on his own, hired Haitian employees, and had been making efforts to expand the solar market in Haiti. Out of good will, the NGOs wanted to solve a short-term problem, but they inadvertently disrupted the market for the solar panel industry in Haiti, caused job loss among Haitians and compounded economic hardship sustained by a country recently affected by natural disaster.

Case 2. TOMS Shoes

TOMS, a U.S. shoemaking company has implemented a Corporate Social Responsibility (CSR) program that provides one pair of shoes to the shoeless in developing countries when consumers purchase a pair of shoes. By 2016, the company had provided more than 6 million pairs of shoes. Two research projects on TOMS shoe donations were carried out among 1,578 children from 979 households in rural area of El Salvador. The first research project found the impact on the local shoe market to be statistically insignificant, although shoe purchases in a market by households randomly given a pair of children’s shoes slightly declined (Wydick, Katz, & Janet, 2014). However, Wydick et al. (2016) reported in the second research project that in-kind donations are likely to have unforeseen and unintended consequences. Their findings were as follows:
The donated shoes were mostly replacing already owned shoes, without a decrease in shoelessness among children.

In-kind donations may unintentionally cause the beneficiaries to have a sense of dependency on the donation producing negative psychological externality.

Case 3. Drug donation to developing countries

Igoumenidis, Kyriopoulos and Athanasakis (2013) reported negative impacts of drug donations to developing countries. Their observations are as follows:

- Donated drugs raised issues of quality and proper use. They arrived unsorted and labeled in a language that is not easily understandable in the recipient country (Hogerzeil, Couper, & Gray, 1997). They also may be too close to their expiration date when reaching the recipient because the drug donation can be used by the pharmaceutical company as a way to dispose of stocks and save on expensive destruction costs (Pinheiro, 2008).
- Recipient countries may experience unintended costs associated with the storage and distribution of the donations that can surpass their fair value (Pinheiro, 2008).
- If the quantity of donated drugs is insufficient, it can create issues related to the difference between the intended course of treatment and treatment made possible with the amounts donated (Gehler-Mariacher et al., 2007). For example, drugs for controlling HIV/AIDS should be taken for life. The supply shortage of these drugs can result in the emergence of resistant strains of HIV, making it hard to treat (Stevens, Kaye, & Corrah, 2004).
- Free products from donors can demotivate the recipient country’s efforts to improve national treatment guidelines.
Additionally, free products can influence physicians and patients by causing product familiarity, brand loyalty, and preferences (Baker & Ombaka, 2009).

**Reasons for unintended negative consequences of philanthropy**

The negative impacts of philanthropy are due to the predominantly supply-led character of philanthropy, failure to design an appropriate theory of change in a multi-dimensional context, an overly technocratic approach to problem-solving, the conflict between urgency and the sustainability of interventions, and negligence.

**Supply-led character of philanthropy**

In most human activities it helps to pay attention and respond to the concerns and needs of the target audience. For instance, to be elected and re-elected in an open society, politicians need to pay attention to the voice of the voters. And to be successful in a market economy, corporations have to listen to the demands of consumers so as to design products that best meet these consumers’ needs (Schervish, 2006). Underlying these observations are power relationships. The mechanism of voting results in balancing the power between politicians and voters. Similarly, the market system results in balancing the power between corporations and consumers. However, in the realm of philanthropy, there is no such system to make the suppliers, i.e., the charitable givers, pay attention to the voice and concerns of the intended receivers and beneficiaries. The absence of an automatic balancing and self-regulating system creates major power differentials in the relations between philanthropic agents and beneficiaries. Schervish (2007) described this as the supply- or donor-led character of the philanthropic relationship.
Such asymmetry of power discourages careful research into the demand side of the philanthropic relationship. In addition, few NGOs and other philanthropic organizations have the time and resources to devote to researching the root causes of problems that usually involve multiple stakeholders and a wide spectrum of multi-dimensional perspectives and disciplines. While recognizing that in the immediacy of an emergency situation as in Haiti there is little time for research, future assistance should start with rapid consultations with local governments, businesses, and community associations to find out what kinds of aid would be best suited for their situations. Admittedly, merely providing solar panels is easier, cheaper, and less time-consuming than even briefly consulting local organizations -- and makes it easier to appeal to donors. For a small local manufacturer to grow, incubator services including infrastructure, business support, and mediation such as connecting external resources are required (Bergek and Norrman, 2008; Robinson & Stubberud, 2009). Growing local companies and creating stronger business eco-systems takes more research, more time, more resources, and even more patient donors.

**Failure of the assumed theory of change**

A theory of change is a graphic representation of the presumed causal pathways linking a program’s activities and intended outcomes (Anderson, 2005). The expressions ‘Logic model’ and ‘causal chain’ are interchangeably used with ‘theory of change’ (Knowlton & Phillips, 2012). Specifying the presumed causal pathways between a philanthropic program’s activities and its intended outcome is a useful model that explains how a philanthropic intervention proposes to achieve its purposes (Glasgow et al., 2017). Fleishman (2007) asserted that “the lack or inadequacy of the logic model” is one of the reasons of a foundation program’s failure to lead to the desired result.
Theory of change is useful when philanthropists actualize their philanthropic intentions by setting goals for their philanthropic activities. Setting goals is grounded on figuring out a specific causal linkage between their actions and the intended results. For instance, in one of the cases described above, it may have been assumed that because a country’s poor cannot afford certain expensive drugs, donation of such drugs will automatically contribute to improving their health. Theory of change is appropriate in impact evaluation as well. Evaluators can demonstrate the benefits and help promote the use of evaluation data by making a foundation’s theory of change more explicit and using it as a basis for designing evaluation studies, presenting findings, and offering recommendations for action.

The more coherent the logic model is, the clearer the outcomes are likely to be. However, the relevant determinants have to be considered to set up a particular logic model. In a causal analysis, each stakeholder may have problems that appear mutually exclusive, but upon further analysis turn out to be interlinked (Mohapatra, 2008). There is a substantial amount of noise outside the system, that affects the outcomes (Frumkin, 2016). Social problems are interrelated and involve multiple layers of causes and stakeholders. In such cases, the risk for well-intended philanthropic activities is that the presumed pathways do not embrace the whole causality of the problem, and a simplified theory of change can even worsen the problem.

Figure 1. Theory of Change.
Source: Frumkin (2016)
The overly technocratic approach to problem solving

Connolly (2011) focused on the risks of a merely technocratic approach to philanthropy. His analysis highlighted a number of its implications in terms of the values it espouses, grantmaking style, relationship with grantees, approach to evaluation and general philosophy. Connolly’s analysis led him to conclude that an emphasis on the technocratic approach neglects to take advantage of the insights and potential greater impact of more humanistic approaches.

<table>
<thead>
<tr>
<th>Humanistic</th>
<th>Overall Approach to Philanthropy</th>
<th>Technocratic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values and passion-driven, expressive, heart-centered</td>
<td>Role of Values</td>
<td>Objective, dispassionate, instrumental, head-centered</td>
</tr>
<tr>
<td>Responsive, opportunistic, and intuitive</td>
<td>Grantmaking Style</td>
<td>Proactive, rationalistic, and disciplined</td>
</tr>
<tr>
<td>Hands-off, bottom-up, flexible, nonprofit as innovator</td>
<td>Relationship with Grantees</td>
<td>Hands-on, top-down, nonprofit as contractor</td>
</tr>
<tr>
<td>More qualitative and Learning-oriented</td>
<td>Approach to Evaluation</td>
<td>More quantitative and accountability-oriented</td>
</tr>
<tr>
<td>An art and craft that is difficult to codify</td>
<td>Ability to Teach and Learn Philanthropic Techniques</td>
<td>A science and discipline with neat frameworks and tools</td>
</tr>
</tbody>
</table>

Figure 2. Humanistic versus technocratic approach to philanthropy.

Source: Connolly (2011)

For instance, in the case of the mere (technocratic) donation of shoes, say to barefoot children in slums, a more positive impact might be achieved from associating with a local organization that would use the shoes as part of its youth uplifting programs. The technocratic approach to philanthropy has become closely associated with the term of 'strategic philanthropy'. Kania, Kramer
& Russell (2014) argued that “strategic philanthropy assumes that outcomes arise from a linear chain of causation that can be predicted, attributed, and repeated, even though we know that social change is often unpredictable, multifaceted, and idiosyncratic.” It has looked for mechanical and top-down solutions to problems, thereby missing opportunities of identifying and implementing more responsive, people and community-oriented solutions resulting from the interaction between “top” and “bottom” experience.

**Urgency vs. Sustainability**

Frumkin (2016) introduced the concept of time frame in philanthropy. What he means is that “in choosing a time dimension to solve public problems, donors make a decision both about the speed with which their philanthropic intent will be fulfilled and the pace at which resources will be directed to the fulfillment of public needs.” What makes assessment of the intervention’s impact complicated is that the time frame of a problem is different cause by cause, and problems are interrelated with a different time frame. For example, in the case of the solar panel manufacturer in Haiti described in Case 1, restoring energy supplies is a matter of urgency and the problem’s time frame is that it can be quickly solved by providing solar panels since all other factors are constant in the short run. However, ensuring the sustainability of energy supplies over the medium or longer run requires consideration of other factors. In this case we must assess how external procurement of solar panels can affect local manufacturers and what measures would be needed to (i) draw on their remaining production capacity which would help their financial survival, and (ii) improve their capacity over the longer term with a view to building local solar panel manufacturing as a healthy local industry and a growing source of jobs. In other words, the solution
to a problem can depend on the time frame we choose to define it: a problem is exclusively urgent in appearance, but fundamentally requires a sustainable long-term approach. Thus the solution of a problem may require only a short-term approach, or a more sustainable long-term approach, or both.

**Negligence**

Negligence literally means “failure to exercise the care that a reasonably prudent person would exercise in like circumstances.” Applying this term to philanthropy, one would assume that under normal circumstances when making a philanthropic decision, philanthropists and not-for-profit leaders and staff would act on an informed basis, in good faith, and in the honest belief that their action was taken in the best interest of the beneficiaries. Not to do so would be considered as a case of negligence. Nevertheless such cases can occur as we saw in relation with drug donations affected by inappropriate labeling and delivery beyond the drugs’ expiration date.

**IMPLICATIONS FOR INTERNATIONAL DEVELOPMENT AND CONCLUDING REMARKS**

This study reviewed three cases when well-intentioned philanthropic activities resulted in unexpected negative impacts and some of the reasons why. While these results can be interpreted differently depending on the chosen ethical perspective, our main purpose was not a judgmental one, but rather to find ways to minimize the risks that philanthropic intention would lead to unintended negative consequences. In doing so, we arrived at two broad conclusions: (i) philanthropists should become more familiar with the main reasons why their interventions may not
succeed, and (ii) they should look for practical ways to overcome such risks.

While the above analysis focused on the reasons why philanthropy can have unintended negative consequences, the same factors are also relevant to the field of international development assistance which similarly attempts to solve problems -- in its case those that affect developing countries. One important difference, however is that development agencies need to obtain their funding from a third party, namely individual donors and taxpayers who expect the performance and impact of development projects to be evaluated, and has led to a vast literature (for a recent example, see Kusek, Goergens, and Hamilton (2013). Applying this article’s framework to both philanthropy and the development assistance literature, we can summarize our findings as follows:

1. Supply vs. demand-driven assistance
   There is considerable risk of failure when philanthropic or development assistance is supply-driven and overlooks the viewpoint of intended beneficiaries. For the same reason, “best practice” developed in one particular context cannot be successfully transplanted to another context without testing and adaptation. Development agencies and philanthropic organizations should be aware of the importance of investigating the demand side of their proposed initiatives and devote the necessary resources to it;

2. Theory of change
   It helps to clarify the presumed theory of change being considered to solve a problem and to appreciate its potential multi-dimensional and multi-stakeholder causality. Philanthropy and development (and policy) interventions are based on theories of change which may or may not be
appropriate, and therefore should be subjected to a thorough feasibility analysis. Alternatively, the introduction of innovations should start with the testing and evaluation of pilot projects, followed by a demonstration and replication phase of the most promising alternative. Furthermore, not-for-profits and philanthropists would benefit from conducting ex-post evaluation of their initiatives, both positive and negative, and sharing their results;

3. Appropriate technology.
Technological fixes to social and development problems may or may not be appropriate. The development literature is replete with stories about “magic bullets” that produced “white elephants” as cynically reported by Hobbes (2014). Also, consistent with Connolly’s views, all too often philanthropy and development projects are designed without a multidisciplinary and multi-stakeholder understanding of the causes of development problems (Perrett & Lethem, 1980) which may either lead to failure or in the case of success, limit the chances of their successful replication;

4. Short-term vs. long-term strategies.
Achieving sustainable impact may require considerable patience and long-term investment. Philanthropic interventions and development projects have often to reconcile the need for rapid and visible results with the objective of ensuring their longer term sustainability. This may require e.g. assessing intended beneficiaries’ capacity and willingness to contribute to operation and maintenance costs, as well as involving them in problem diagnosis and the generation of potential solutions rather than using a “top down” approach to design; finally,

5. Negligence.
In too many cases designers and implementers neglect to make
use of the “Do No Harm” methodology developed by Anderson (1999) to minimize the risks of conflict that can arise from philanthropic and development projects.

In conclusion, given that there are few previous studies on the reasons for the occasional unintended negative impact of philanthropic activities, this article contributes by bringing together main findings from relevant literature and suggesting ways to prevent unintended negative impacts of philanthropic activities. This study should inform philanthropists, not-for-profit leaders and staff, and fundraising professionals, and contribute to the success of their activities. However, further studies with different cases are in need, as is discussion among philanthropists and those engaged in international development regarding best practice and lessons learned.

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