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The risks of being a philanthropist – a risk-ethical analysis of philanthropy

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Abstract

Philanthropic acts aim at a change in habits or situation in the life of others. The current debate on performance measurement and professionalization of the philanthropic sector leads - despite the altruistic tenor of the acts – to the question, which consequences the beneficence has and to what extent a philanthropist has to take them into account in advance. Based on risk-ethical decision approaches this paper discusses several risks for the philanthropist and others. Practical examples and theoretical considerations are used to elaborate specific risks of philanthropy. Afterwards three elementary parameters are presented that a philanthropist may use in order to reduce the probability of the aforementioned risks.

1. Introduction

"Spending money intelligently is as difficult as earning it." (Lowe 1998:178). This quote was made by Bill Gates who established the largest foundation in the world. Similarly, Aristotle (1908) claims "but to [give or spend money] to the right person, to the right extent, at the right time, with the right motive, and in the right way, that is not for everyone [sic], nor is it easy". Both quotes highlight that philanthropy is not only pleasant but that the actions of a philanthropists are based on decision problems. Bill Gates positions philanthropy on the same level as economic action, where entrepreneurial risk is priced into every decision. Aristotle accentuates the responsibility of the philanthropist to act based on balanced decision-making.

When it comes to risk assessment of altruistic action the common reference is Peter Singer. Looking at international development aid, Singer formulated the following moral principle (1972: 241): „If it is in our power to prevent something bad from happening, without thereby sacrificing anything morally significant, we ought, morally, to do it.“ He exemplifies the principle referring to the situation that a child has fallen into a pond where one just passes by. Certainly, one will jump in the pond and save the child. The damage will be some dirty clothes, whereas the death of the child would be a tragic consequence. Morally, we are obliged to act altruistic if no important personal interests are affected. Leif Wenar develops based on this principle the donor's question (2010: 198): decisions

No philanthropist is able to answer this question in a concluding manner. It is obvious that good intentions will not be sufficient for an answer. In its core, the question relates to causalities and impact (von Schnurbein 2007). Especially, since philanthropists use the concepts and methods of venture capitalists the question of consequences and impact of doing good have gained attention (Hoelscher et al. 2010). Closely related to this development is the discussion on negative outcomes and the responsibilities of the philanthropists (Edwards 2008). Philanthropists can no longer expect gratitude only, but also the question if she or he has applied the same standards to philanthropy as to the proper economic activities. The question is, which venture philanthropists really take for themselves and for others. Thus, this piece of work aims at discussing the risks of philanthropic action for the philanthropists as well as for third parties. As a theoretical basis risk-ethical decision approaches are chosen because the decisions are usually taken under uncertainty and they offer the opportunity to discuss the imputability of consequences.

In the following, we will define the term philanthropy and present the foundations of risk ethics. Afterwards, the risks of a philanthropist for himself and third parties are discussed with the help of actual examples. Finally, three parameters to minimize the probability and the possible damage of risks will be presented.

2. A modern understanding of philanthropy

The term philanthropy roots back to ancient Greek philosophers and has changed its meaning over time (Brink 2009). Daly (2012) proves, that philanthropy fulfills the criteria of being an essentially contested concept. A short story from Switzerland helps to capture the understanding of philanthropy in this piece of work (von Schnurbein/Bethmann 2010): On January, 24th 2010, the rotten leftovers of a Bugatti Brescia Type 22 were purchased by auction for 260'500 Euros. The car had moldered on the grounds of the Lago Maggiore for more than 70 years. The bidder, a Dutch man, gave the car as a present to a US-American museum where it is exhibited today. Besides the interesting story how the car got into the lake, it was the reason for its recovery that pushed the amount of the bid. The Bugatti was recovered by the members of the diving club of Ascona in 2009, in order to support the Damiano Tamagni Foundation. Damiano Tamagni was a member of the club and died 2008 of the injuries after an assault by other young people. The foundation was established by his parents with the aim to prevent youth violence and support victims. This short story shows the diversity of philanthropy: foundation (parents of the victim), patronage (bidder to the museum), donations (divers to the foundation), in-kind donations (Bugatti), and volunteering (divers). Philanthropic action is rarely a single appearance but develops interconnected or dependent on each other. Financial donations alone do not lead to social change if there are no volunteers that work for the cause. On the other hand find social initiatives a quick end if they do not receive financial support. As a consequence, philanthropy always refers to a larger social context and is an expression of voluntarily taking responsibility for the society (Lauterbach/Ströing 2012). In this paper we refer to the concept of philanthropy as a set of actions (Payton/Moody 2008) and not as a habit or a characteristic. This understanding developed in the US, but gains more and more attraction in Europe, as well (Adloff 2010). Sievers (2010:12) describes philanthropy as “allocation of private resources to important public needs...“. In accordance with this perspective the following definition is used in this paper: Philanthropy includes every voluntary private action for a charitable purpose. From an ethical perspective, philanthropy is not a duty, but at least is based on the principle of “do no harm”, especially to other people. The prevention of harm is the starting point for the following discussion of risk-ethical decision approaches.

3. Risk-ethical assessment of philanthropic action

Philanthropy – especially money donations – results from prosperity and exuberance. Despite this closeness to affluence, the economic principle of scarce resources applies to philanthropy, as well. Notwithstanding the general generosity, the philanthropic resources are usually not sufficient to achieve the purposes they are given to. For instance in Switzerland, private donations by individuals, companies, and foundations sum up to CHF 3 billion (USD 3.3 billion). Compared to the federal budget (without cantons and communities) for social issues, culture, education and research, environmental protection, and development aid of CHF 30 billion (USD 33 billion) it is not more than a drop in the bucket. This highlights the necessity for philanthropists to deal with questions of allocation and scarcity.

3.1. Foundations of risk ethics

In a wider understanding, the term risk is not always negative, but there are also positive incidents, usually referred to as chances. Following the motto “who dares wins” risk is connoted with entrepreneurial innovation (Rath 2008). However, in a narrower understanding risk reflects the probability that damage results from an event (e.g. earthquake) or an action (e.g. bungee-jump). Basically, a risk reflects something that occurs in the future. The possible consequences of risky decisions become visible at a later stage. People tend to underestimate the risks that are chosen on a voluntary basis (e.g. smoking). On the contrary, the risks of unsure or ambiguous incidents are overestimated (e.g. plane crash) (Nida-Rümelin 1996). The essential factors of risk are the probability of occurrence of a damage and the consequence, e.g. the extent of loss (Rippe et al. 2006). By multiplying the two factors one can make an estimation of the risk. The probability of a cruisliner passing an Italian island on the wrong side and drowning is low, but the extent of loss is very high. Compared to that the probability of a car accident is significantly higher, but the extent of loss much lower. The consequences of a risk can be positive or negative, depending on the assessment by the individual. Additionally, the risks often do not affect the risk initiator but other individuals (Rath 2008). Risk ethics deal with the assessment of situations in which an individual causes damage for itself or third parties through an event or an action. Three situations are possible (Bachmann/Rippe 2008):

- (1) An individual exposes itself to a risk and does nothing against preventing it;
- (2) An individual contributes to prevent others of loss;
- (3) An individual imposes a risk on others, which can be a direct risk (pure risk imposition) or a risk out of damage (impure risk imposition) (Thomson 1985).

The last situation is the starting point for risk ethics, because it usually deals with social risk, e.g. risk that affect others than the initiator (Rath 2008). The moral assessment of probability of occurrence and extent of loss always happens before the situations takes place. Thus, risk ethics is an ex ante-ethic and risk assessment are taken in ignorance of the actual realized consequences. Consequently, subsequent

assessments are excluded: An admissible risk stays admissible, even if damage occurs. Inversely, an inadmissible risk stays inadmissible, although no damage happened. As a matter of fact, risk ethics does not answer ex post questions of the relation of cause, effect, and impact of an action.

For the assessment of risk situations from a moral perspective, three risk ethical decision approaches can be discussed (Bachmann/Rippe 2008): Bayes-criterion, maximin-criterion, and permission principle. While the two former criteria are based on formal assessments, the latter is more procedural.

Harsanyi (1977) developed a utilitarian-bayesian decision theory based on the pursuit of happiness and utilitarianism. Both aspects follow a principle of maximization, e.g. an action is morally acceptable, if it the maximized good by trend is increased (or vice versa). From a bayesian perspective, happiness consists of the preferences of each individual's utility expectations (Rath 2008). Thus, the Bayes-criterion says: *maximize the (subjective) expected value of the consequences of your actions, whereas the expected value is the product of probability of occurrence and extend of loss.*

The maximin-principle is based on the understanding of justice by John Rawls and is oriented towards the consideration of the least favored individual of a society and the prevention of the worst case (Rawls 1971). Thus, the maximin-principle follows a responsibility approach facing the insecurity and ambiguity of risk situations (Rath 2008). The primary focus on the least favored individual leads to a set of alternatives that are put in an ordinal utility order according to their consequences: one has to choose the alternative which least possible incident is better than that of all others. The probability of occurrence is not a decisive factor. Thus, the maximin-principle says: *maximize the minimal utility or avoid the maximal damage.*

Finally, the permission principle introduces the autonomy of people involved: *Individuals have the right, not to be treated in a specific way (for instance being damaged), only if they have given their permission* (Rath 2008). Following this criterion, an individual that has not agreed may not be imposed to a risk, even if all experts are totally convinced that it will be better off afterwards. Contrary to the two other criteria the permission principle is not reduced to the decision situation, but follows a procedural approach of risk assessment, risk management and risk information.

3.2. Application of risk ethical decision criteria to philanthropy

Although philanthropy is about “doing good”, applying risk ethics to philanthropy is justified by several reasons. First, it has already been said that philanthropy is voluntary and no essential duty. But there is the responsibility to do no harm, affecting other peoples' lives in a negative way. Second, the orientation toward a charitable purpose inevitably leads to an intervention in other individuals' lives, without always getting their permission in advance. Third, philanthropists and foundations tend to speak of themselves as social innovators. However, innovation always implies the existence of risk (von Schnurbein 2007). A

special reasons for elite philanthropy are the causalities of individual and social risks. As philanthropy of elites is both a means for peer reputation and charity, these philanthropists face both kind of risks.

4. The risks for philanthropists and third parties

The charitable actions of a philanthropist bear risks for himself as well as for others. For reasons of clarity lies the focus of the following sections on monetary philanthropy, be it donations or a foundation. First, we will concentrate on the risks for the philanthropist, namely the loss of wealth and the public exposure.

4.1. Risks of a philanthropist (without externalities)

4.1.1. The risk of loss of wealth

Especially with the establishment of a foundation a philanthropist offers a significant share of his wealth to charity. In most countries, the donated money cannot fall back to the founder. How difficult this separation is, becomes evident when founders speak of “their” foundation. As a matter of fact there is a strong causality between the developments of the stock exchange and the establishment of new foundations. In the past twenty years, the number of establishments followed the development of the stock exchange always with a short time-lap (Eckhardt et al. 2011). When times are prosperous, people are more willing to share their wealth than in times of ambiguity. Giving to philanthropy imposes an individual stronger to the risk of losing – or reducing – its own standard of life.

4.1.2. The risk of public exposure

Philanthropy is always based on a certain set of values (Payton/ Moody 2008). Donors and founders give their money to causes touching their hearts (Timmer 2005). The most frequent – but smallest – consequences of public exposure is the raise in applications and requests. However, the more severe consequence is the linkage of the own person to a public issue. There are purposes – e.g. cancer research or environment protection – that are beyond discussion and profit of a cognitive legitimacy (Suchman 1995). Other purposes instead lack of general acceptance, and their support pushes the philanthropist to expose himself in public. Engagements for the unborn life or genetic engineering may lead to discussions or even discontent. Especially the risk of public exposure leads to the prevalent attitude of philanthropists to stay inconspicuous.

4.1.3. Discussion of risks without externalities

The two risks may be assessed by applying the Bayes-criterion. The philanthropist may optimize its own expectation value by calculating, how much of his wealth he can spend today without threatening his own standard of life. Accordingly, he may think about how to realize the planned purpose while minimizing the threat of public exposure for him. These kinds of risk assessments are still manageable, especially

because the philanthropist imposes himself to these risks on voluntary bases. The assessment of risk with externalities is much more difficult, instead.

4.2. Risks for third parties (with externalities)

Depending on the kind and dimension of philanthropic action many risks for third parties may be found. Thus, we will focus on a few, generally applicable risks, e.g. the change in life situation, the risk of simplification, the risk of non-consideration, and, finally, the risk of societal misallocation.

4.2.1. Change in life situation

The primary aim of philanthropic action is to help people in need and to change their situation of life to the better (von Schnurbein/ Timmer 2010). Most explicitly this aim is pursued with the principle of helping others to help themselves. For instance, Andrew Carnegie was convinced that people increase their standard of life through better knowledge. Thus, he financed the construction of libraries all over the U.S.A. and in U.K. in order to offer access to knowledge (Krimphove 2010). Undisputedly, the great attraction of philanthropy lies in the chance – totally consistent with Singers principle – to change the lives of others to the better with something that one can afford without sacrifice. However, examples proof the opposite, especially in development aid.

The challenge is described by Ostrander (2007: 359) as donor-controlled philanthropy: „When donors are encouraged and enabled in giving more and more specific directives about their gifts, then recipients have less and less to say about how best to use these needed resources.” The example of the public health care system in Malawi testifies the consequences of a predominantly externally steered philanthropy. From 2003 to 2007 the health ministry of Malawi lost 64% of public employed nurses and 85% of doctors in public health care. Most of them changed to one of the over 1000 international nonprofits active in the country that paid better wages (SADOCC 2007). Assuming that these nonprofits were aiming at improving the life of the Malawian people, they did the contrary. According to Thomson (1985) the situation is a impure risk imposition: on the one hand the Malawians have the risk that they cannot profit from the health care personnel that has been trained by the state. Moreover, they are exposed to the risk of maltreatment because of the doctors' shortage.

4.2.2. Risk of simplification

Singers principle to help others if you do not have to accept any morally indefensible limitation is as evident as difficult to implement. Understanding the complexity of the problems of people in need usually goes beyond the imagination of wealthy people. This leads to a risk of simplification, when good intentions are followed by bad results. How difficult it is to achieve social change for individuals shows a prominent example from Chicago (Frumkin 2006). The famous talkmaster Oprah Winfrey started a

program with the aim to relieve 100 families from public housing and government aid into a life of independence and self-determination. The program “Families for a better life” had a budget of USD 1.3 million. 30’000 families applied in a first round, 4’000 fulfilled the granting conditions, and 1’600 finally handed in a complete application. Two years later, only 7 families had received a support around USD 180’000 each. Two of them assigned from the project, only three moved out of public housing and only two parents found a new job. Although one cannot purely talk about a loss, the aim of 100 families was completely failed. One can ask the question, if the program would have been started, if a risk assessment (e.g. with Bayes-criterion) would have revealed the effective result.

4.2.3. Risk of non-consideration

Another risk of philanthropy that might cause damage for others is non-consideration and rejection. Philanthropy does not claim to be just. The beneficiaries of a foundation cannot enforce their claim on a grant. As long as the foundation board acts within the boundaries of the deed and distribute grants, no administrative appeal will be successful. Whereas public support institutions have to proof that the decision for one project and not the other was just in the sense of the granting conditions, foundation boards or philanthropists have no obligation of proof. This chance for arbitrariness increases the potential for innovation, but at the same time raises the risk to create frustration. As many foundations or philanthropists do not publish their conditions for granting, applications are often incomplete or improper in the first place. This highlights the dilemma of many philanthropists: by minimizing the own risk of exposure (e.g. non-communication), the risk of rejection for beneficiaries’ increases.

The new concepts of philanthropy fuel this risk even more. Ostrander (2007) criticizes the current development to a donor-controlled philanthropy, where the donor-grantee-relationship is unbalanced in favor of the donor. Methods and instruments strengthening this development are exclusive contracts, philanthropy advisors, intermediaries, and new concepts such as social investments or venture philanthropy (VP). Venture philanthropists select their projects very precisely and conduct thorough due diligence processes before they give their consent (Hoelscher et al. 2010). As a consequence of this due diligence processes results a high number of rejections. A case study on the German VP-organisation BonVenture revealed that only 13.8% of requests get through the due diligence process, and finally only 0.9% of all requests lead to an investment (Heister 2010). This raises the question, how the created hopes of all other evaluated projects hat to be taken into account and who finally takes a venture in VP?

Form risk ethical perspective, venture philanthropists may argue that VP never works without the permission of the beneficiaries. However, these remarks have shown that philanthropists not only have to respect the consequences of their activities for the beneficiaries. From a moral perspective, they have to consider the consequences for those that are rejected.

4.2.4. Risk of societal misallocation

The final risk with externalities does not deal with the beneficiaries of philanthropic action but with the society in total. Especially from statist perspective philanthropy is accused of reducing state income and that public purposes are supported based on individualistic interests. The layer of this arguments consists of two reasons: first, that the allocation of resources is done best by the state and second, that private philanthropy does not lead to redistribution of wealth (Wolpert 2006). From a risk-ethical perspective, philanthropy is not a misallocation of resources for the society if the expectation value of the society can be optimized (Bayes-criterion) or if the least worse allocation of private philanthropy leads to a better public utility than the one of state allocation (maximin-criterion). The question on redistribution is simpler to answer than the one on allocation. Basically it is true that philanthropy does not primarily lead to redistribution (Anheier/Daly 2007). This is a major difference to charity containing alms for disadvantaged people (Adloff 2010). Instead, philanthropy goes beyond social and health causes and is also oriented towards culture, research and social activities. In these areas one cannot speak of redistribution. Donations to museums, theatre, and universities increase predominantly the welfare of the middle class, not of the poorest of the poor (Wolpert 2006). If the state enables philanthropy with the aim to foster redistribution, a misallocation of means is inevitable. However, when philanthropy is understood as complementary to state activities, it strengthens pluralism and social stability (Anheier/Daly 2007). For most funding areas, private philanthropy is more diversified and versatile than state funding (Purtschert et al. 2003).

4.2.5. Discussion

Concluding on the different risks of a philanthropist illustrates a general dilemma: the morally necessary regard of the consequences for the general public is a contradiction to the individual interest and personnel freedom that philanthropy incorporates (Wuffli/Kirchschläger 2010). But the described risk show clearly that the responsibility of the philanthropists goes beyond “do no harm” (Brink 2009). Especially the premise or doing good seduce to unconsidered and emotional action. Philanthropists are usually not touched by the consequences of their actions, but all the more they influence the life of others. The use of risk-ethical assessments may help to reduce or avoid negative consequences, because it offers evaluations of unsecure or ambiguous consequences.

Following the Bayes-criterion helps to determine the expectation value of alternative actions and subsequently choosing the option with the highest expectation value. However, the maximization of the good in mind (e.g. help families into a better life) is not sufficient in the context of philanthropy. There is also the question of appropriateness. The example of the project by Oprah Winfrey shows that cost-benefit-analysis are necessary in philanthropy, as well. We will discuss a systematic approach to this in the subsequent section of the paper.

Applying the maximin-criterion gives an answer on the question which risks should not be taken at all, e.g. which option are outside the core of possible solutions. When it comes to charity there is the constant danger that critical reflections and regard on negative consequences are neglected. There are nearly no restrictions on the choice of a philanthropic purpose. Thus, balancing personal affections and social demand always rests in the decision of the philanthropist.

Finally, there is a moral duty for a philanthropist to respect the permission-principle and to act only where he got the consent of people affected by the philanthropic action.

Concluding we can say that risk-ethical assessments of philanthropic activities help to separate the wish of doing good from consequences in the life of others.

5. Parameters of risk minimization in philanthropic action

So far this piece of work focused on how philanthropic action imposes risk on the philanthropist and on others, as well. The resulting damage can be materiel or immaterial. Form a moral perspective should a philanthropist minimize the risks without changing the sense of the donation. Not to donate is no adequate answer to minimize risks.

In the following section three parameters to reduce the probability of damage in advance are presented. The focus is put on essential aspect of a philanthropic action, not on means of general caution. These central philanthropic parameters are the amount of the donation, the purpose, and the underlying theory of change.

5.1. The amount

The introductory quote by Aristotle made it clear: it is not only difficult to decide whom to donate. Much more difficult is the decision on the right amount. As there is not direct equivalent to define the just amount and no expected reciprocity, there is no scale to simplify the decision. But the amount has a high impact on the further development of the philanthropic activity. Both over- and underestimation of financial demand lead to an increase of risks. The overdotation of a foundation usually leads to a negligent selection of projects or inefficient use of resources. A warning example from Switzerland is the Jakob und Emma Windler Foundation. The foundation assets are above CHF 700 million (USD 760 million), but the purpose is restricted to the town of Stein am Rhein with 3'200 inhabitants. Above other issues the purpose of the foundation is to support the improvement of the townscape. In 2010 the foundation decided to support the construction of a parking lot with CHF 10.5 million (USD 12 million). However, through a referendum the people turned down the plans.

A different situation exists in foundations with insufficient means. The assets of many foundations are already at the establishment too small to pursue the purpose efficiently. Often the purpose of such foundations is the preservation of an art collection. The assets usually consist of the collected art and only

few financial means. However, storage, insurance, and conservation raise annual costs that have to be paid by other sources. The problem gets worse if the collection was of personnel value of the founder, but lacks artistic importance.

5.2. The purpose

In close relationship to the amount, the purpose has to be discussed. From a legal perspective, a foundation is a personalized estate devoted to a specific charitable purpose (Sprecher/von Salis-Lütolf 1999). This increases their responsibility to carefully choose this purpose. In former times it was usage to set up a foundation with a narrow clearly defined purpose. In practice, this causes problems until today as the example of the Christian Schmid Fonds shows (von Schnurbein/ Timmer 2010). Christian Schmid, a successful furniture producer from Graubünden, died in 1962 and established through a legacy a fund with over CHF 150 million (USD 170 million). For the authorities occupied with the realization of this foundation it caused a lot of trouble. The purpose of the foundation was to support boys of protestant belief, with parents living in communities of Graubünden over 800 meters above sea level (including Malans) in their education. The complex earmarking of the fund led to legal proceeding for over 40 years and finally the purpose was adjusted in order to be implementable. Today young people of both sexes from all over Graubünden can be supported in their education. Only the confessional restriction was not abolished due to the will of the founder. Instead, the canton of Graubünden has set up a similar fund for the catholic youth in order to create a balance.

A well thought-out purpose reduces misallocation and prevents misuse. But this does not mean that only open purposes are useful. A successful example of a very narrow purpose is the Fuggerei in Augsburg, Germany (Häberlein 2006). The Fuggerei is the world's oldest social housing complex still in use. It was established by Jakob Fugger as a foundation in 1521. Only catholic citizens of Augsburg are accepted to live in the Fuggerei that have become indigent without debt. All arrangements by the founder are still in use today. This includes the annual rent of one Rheinischer Gulden (equivalent to EUR 0.88), and the lodgers have to pray three prayers per day for the owners of the Fuggerei - the Lord's Prayer, Hail Mary, and the Nicene Creed. Although the arrangement might be outdated today, for the city of Augsburg the Fuggerei is an important relief of further social housing costs.

Wuffli/ Kirchschräger (2010) define as one of four basic ethic principles of philanthropy the ethos of modesty. With modesty they understand the knowledge and the insight of the limitations of the single person and its possibilities. Based on this we postulate a moral duty to scrutinize the own philanthropic engagement critically and from a distance.

5.3. The theory of change

The aim of a theory of change is that “programs are based on explicit or implicit theories about how and why the program will work” (Weiss, 1995: 66). Stauber (2001:394) formulates the basic theory of modern philanthropy as follows: „Under this model, foundations, working in close cooperation with other institutions, identify important social issues, explore possible approaches to addressing the issues, select one or more approaches deemed to be worthy of experimentation, fund the experiments at some scale, assess the results, and then, if appropriate, attempt to transfer the model to permanent government funding.” The difficulty lies in this, that the question of how and why is much more difficult to answer than the settings of amount and purpose.

Singers metaphor of the child in the pond is that plausible, because the options for actions are limited. Singer does not name numerous alternatives to save the child from drowning. But if a philanthropist donates a high amount of money, the alternatives of how to invest is are myriad. Additionally, the cross-linked thinking of our time increases extremely the complexity of solutions. In former times it was sufficient for a philanthropist to build an orphanage. Today, with the modern standards of impact measurement, the same engagement would have to fulfill additional criteria like a) the orphanage has to be built environmentally sound and energy-conserving; b) the staff has to hold sufficient certificates of training; c) the children in the orphanage should have a better future than a control group outside the orphanage; d) the social environment should not be destabilized by the orphanage. This list could be filled up with even more criteria. To stay in Singers metaphor: It is not anymore sufficient to save the child from drowning. Instead, it is the minimum to teach the child how to swim afterwards. Otherwise the saving would not be sustainable.

When elaborating a theory of change, a philanthropist makes sure that he develops a mode of operation for his philanthropic action that follows a cause-effect-relationship. Such an analysis helps to detect and evaluate differences between the expected and the actual consequences. Especially, one can evaluate, which negative consequences might arise and if they are bearable without reducing the status quo. The development of a theory of change can be done by answering the three essential questions of utilitarianism:

- (1) Which alternatives do exist?
- (2) Which consequences can be expected with these alternatives?
- (3) How are these consequences evaluated?

A philanthropist asking these questions soon realizes that it is barely feasible for a single person. Thus, there is a range of methods and instruments to facilitate the development of a theory of change (Mildenberger et al. 2011). The most common approaches are logic frameworks that follow a cause-effect-chain and help to reduce the complexity of projects onto few essential aspects. By defining inputs,

activities, outputs, and outcomes connections are revealed and ways of implementation developed (United Way 1996). A different opportunity to measure ex ante projects is benchmarks.

Concluding we can say that a philanthropist can reduce the risk for himself and for others by clarifying his ideas of amount and purpose and setting them into a relation to each other. Additionally, the development of a theory of change helps to understand how the means can best serve the cause. The reflection upon the three parameters increases the ability to detect risks of different alternatives of philanthropic action and to reduce their probability of occurrence.

6. Outlook

Starting from the quotes in the introduction this piece of work highlighted that it is not the donation itself that causes problems, but the questions of how and why. A philanthropist does not act out of social pressure, governmental obligation, or religious duty, but voluntary. Although philanthropy stems from affluence, the general scarcity of philanthropic means leads to challenges of decision and allocation. “Relinquishing in donating” is not for everyone. Applying risk ethical decision approaches on philanthropic action it was shown that there are risks for both, the philanthropist and third parties.

The risks of the philanthropist are the loss of wealth and the public exposure. Risks for others are change of life situation, simplification, non-consideration, and misallocation.

In modern philanthropy, a lot is been done to reduce risks through professionalization, monitoring, and other methods (Wenar 2010). However, by applying the three parameters presented in the text, a philanthropist can reduce the probability of occurrence of risks in philanthropic action in advance. The amount and the purpose have to be chosen carefully and have to be matched in order to reduce misallocation and insufficient funding. In this context it is evident that philanthropists accept beneficiaries as partners not as supplicants (Ostrander 2007). Another aspect is the question of impact. Modern philanthropy is not only about saving the child, but also about how to teach swimming.

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