Changing the Way People Give…

By Karan Girotra

The world is full of problems– poverty, malnutrition, medical access, climate change, natural disasters, etc. It is also full of many tenacious do-gooders with solutions, and thankfully many generous souls who would like to financially support these do-gooders. Unfortunately, the "marketplace" that matches the do-gooders with solutions is what economists would call very inefficient, that is many matches that are in the interest of everyone involved are not made.

GlobalGiving, **GiveIndia** and a new breed of startup donation platforms are attacking these inefficiencies with a new business model for charitable giving and forever changing the way people give. More interestingly, how can we apply some of the renaissance innovation techniques that we talk about on this blog to take giving to the next level? Read on for some game-changing ideas…

The donations marketplace is characterized by a lack of verifiable information about the quality of the receiver, making donors hesitant, the market is highly disaggregated on both the receiver and donor sides, thus increasing transaction and search costs, the transactions are plagued by high donor inertia (intentions rarely translate into action in presence of the transaction barriers), donors have strong preferences between different receivers, donors worry about the potential benefits that will accrue from any one charitable investment etc. All of these issues contribute to many inefficiencies, that is, many potential matches between donors and receivers that could be value-creating for all involved are not made. Alternately, in renaissance innovation terminology, one may think of them as risks– risks associated with finding the right receiver, risks associated with the actions and intentions of the receiver and the risks from the external environment he/she operates in. Some estimate that the amount of giving can be increased many times if these risk would be limited– having a much larger impact than almost any other initiatives. So how can one tackle these?

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The renaissance innovation approach would recommend reducing these risks and then diversifying them away.

GlobalGiving begins with the dedicated, tenacious individuals who are driving change in their communities. From running orphanages and schools, to helping survivors of natural disasters, these people are do-gooders to the core. GlobalGiving then pre-screens these projects to ensure that they are legitimate and will comply with a set of basic criteria. Many such projects are then presented to potential donors. This includes details on the organization’s governance systems, financial profile, directors, affiliations, social policies, etc. presented in a standardized, comparison friendly format, bringing hitherto unprecedented levels of transparency to this market. Potential donors can screen a large number of projects and find something that fits their donation philosophy. Next, GlobalGiving provides regular feedback on the fund-raising goals of the project, the utilization of the funds and the progress of the project. Reputation-based feedback systems can be further incorporated.

From the donor’s point of view, this provides an unprecedented transparency, certification and a large plethora of options to make their donations, reducing the transaction costs and the risk associated with the ability and intentions of the receiver. From the receiver’s point of view, this provides access to a much larger pool of donors than previously possible. At a basic level, these platforms are no different than platforms like eBay and Amazon which brought the same transactional efficiencies and transparency to markets for goods and service. But can we do something more to further reduce these risks? Read on…

While these platforms limit some of the risks associated with poor information about the receiver for the donor, they still don’t reduce other inherent risks associated with the proejct you are funding– for instance, depsite the best intentions, the project itself may turn out to be less effective than one imagines, or the local government/society may block the project, etc. Essentially, charitable investments are exposed not just to risks out of the receivers’ intentions, abilities and credentials, but also to uncontrollable external factors. The classic renaissance innovation solution to such risk arising out of external factors is to diversify the risk. So how about investing in a slice of a portfolio of charitable investments rather than putting all your

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money in one investment? Essentially, a managed fund (like a hedge fund or a mutual fund, etc.) of donations. Such a portfolio of charitable investments would be less risky than any one donation in terms of its social impact. Further, just as there are funds for different investment strategies; one may have funds for different giving objectives.

To be sure , I am not aware of any organization doing this systematically, but it sure sounds like a great idea for one of our readers to go ahead and pursue (let us know about it if you plan to do so, or are already doing it, we'd love to help…) . More interestingly, the above example illustrates how one can apply some classic renaissance innovation techniques to generate new game-changing ideas. Second, on this blog we often talk about successful for-profit businesses, but the ideas of renaissance innovation, that is innovation by reinventing the economic systems, business models apply broadly. They apply to for-profits, non-profits, to the private sector and to the public sector. They are a potent tool for individual, corporate and social entrepreneurs. In fact we believe some of the greatest problems that the world faces today might be better solved by reinventing the economic systems and business models rather than hope for technological miracles. Watch out for more on that in future posts…

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About the author(s)

Karan Girotra Karan Girotra is a Professor at Cornell Tech and in the Johnson School at Cornell University.

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