Referee report on the Ph.D-dissertation of Katarina Svitkova, 'Essays on Philanthropy'

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This dissertation consists of three papers on philanthropy. The first two papers analyze theoretically the behavior of certification agencies of nonprofit organizations and these nonprofit organizations themselves. The third paper analyzes empirically the sponsoring and philanthropic activities of corporations in the Czech Republic and Slovakia. Each individual paper has considerable merits. The first two papers are analytically clear, based on sound assumptions, and reach important insights in the behaviour of nonprofit organizations and certification agencies. The strength of the third paper on corporate philanthropy is the empirical analysis. There are not many studies available on the topic that use methods of comparable quality. The chapters are written in relatively good English. I am not familiar with the standard practice in what constitutes a good PhD thesis in the Czech Republic. But judging from what constitutes a PhD thesis in the US, this one is good. Taken together, the three papers make a very fine dissertation, and I recommend the author to be admitted to the defense.

Each of the three papers has enough potential to enable publication in international academic journals. However, each paper also has its shortcomings. None of these shortcomings are critical. But addressing them may increase chances of publication of each of these papers. Therefore, I will identify some shortcomings and give a few suggestions to deal with them.

Chapters 1 and 2 are based on rather crude assumptions (page 4-6). An obvious question that needs to be addressed is how the results of these chapters change as the assumptions are made more realistic.

In chapter 1, it is assumed that the quality of charities is not observed by donors [F3]. This assumption does not hold for many fundraising organizations that provide services to members or clients, especially in competitive markets. Members and clients evaluate these services, and compare them to services of competing organizations. Examples are hospitals, sports clubs, and cultural organizations that offer courses. Does certification of such nonprofit organizations make sense? I would say less so than certification of nonprofit organizations the output of which is more difficult to evaluate.

With regard to donor motivation [F4], it is simply assumed in both chapters that donors care about the quality of the output of charities. However, from empirical research we know that for many donors this is not the case. In the dominant model of philanthropy, the impure altruism model (Andreoni, 1990), donors care mostly about the act of giving, and not about the output of charities. In that case, a good type is not preferred to a bad apple. One may save the assumption of a preference for certified charities by assuming that the act of giving to a certified charity yields more utility than the act of giving to a non-certified charity. One reason why this may be the case is that donors talk with each other about the quality of charities and dislike a reputation of being a person who wastes money on dishonest charities. Another reason why donors may prefer certified charities is that any certificate – even a certificate awarded by the industry itself and that does not involve any independent external monitoring – affects consumer behaviour.

The implication of the assumption of altruistic motivation (or impurely altruistic motivation by the wish to avoid wasting money on dishonest charities) is that donors prefer certified charities. However, donors will adjust their reaction to certification if they learn that the detection technology is imperfect. Donors will be more likely to favour certified charities when they have more reasons to believe in the quality of detection technology. When they know (or suspect) that a large fraction of bad apples go undetected, they are less likely to prefer certified charities. It is unclear how this affects the results of the models. It may strengthen the conclusions on page 22 and 47. Lower fees attract bad apples who are detected; if detection of bad apples is made public this enhances the credibility of the certifier and the preference for certified agencies.

An interesting implication of the model that deserves more attention is that increasing accountancy fees lower the amount donated to charities. Fewer charities apply when the fee for certification increases. The fee increases when the costs of detection technology increase. As the costs of detection technology depend heavily on the fees of accountancy firms, increasing accountancy fees lower the amount donated to charities.

The discussion of practical implications at the end of chapter 1 needs some more work. A discussion is needed of the problem of the credibility of the certification agency. In transition and developing countries, with a higher level of corruption, certification agencies are less likely to be trusted by potential donors when the certification agency is funded by state subsidies. The model shows that a for-profit certifier would certainly be undesirable. The implication is that certification agencies in corrupt countries should be foreign-based, nonprofit organizations.

Chapter 2 focuses on the behaviour of fundraising nonprofits rather than the certification agencies. The basic result makes sense theoretically. It also supports the assumption of chapter 1 that donors prefer certified charities. However, several studies have failed to show that quality of firms improves due to the introduction of a certification system (Terlaak & King, 2006).

Several assumptions of the model are not in line with stylized facts. Donors do not know the costs of certification and the quality of the detection technology. Evidence from a bi-monthly survey in the Netherlands (not available in English, unfortunately) suggests that donors underestimate the costs of certification. The Dutch think that certification is paid for by government subsidies. In the mean time, they overestimate the quality of detection technology. For instance, the Dutch think that certification includes guarantees on how much is spent on programs, while this is not the case.

Like chapter 1, chapter 2 would benefit from a more elaborate discussion of the practical implications.

In my view, chapter 3 would benefit from a change in focus. As it is now, the chapter focuses on the effect of changes in the tax regime, which, judging from the empirical results, appears to be of little influence on corporate philanthropy. There are several directions in which the chapter can be rewritten. One involves an exploitation of the country differences. In the empirical results, there are numerous differences between CR and SR. The chapter contains an implicit explanation for these differences: CR is a more modern country that resembles more strongly the situation in the US and western Europe. Because theories on corporate philanthropy are a product from these regions, it is not surprising they work less well in SR.

Another potential direction involves a stronger emphasis on firm specific effects. The most relevant question here may be how firms divide their philanthropic effort between giving and sponsoring. On page 81 it is concluded that the results suggest that sponsoring and giving are substitutes. However, in the next paragraph, I read that 'the difference between sponsoring and giving may result from their different nature…'. And also on page 82 it is concluded that 'there is a difference in the motivation for sponsoring and giving'. These conclusions sound like a contradiction to the preceding statement that giving and sponsoring are substitutes. And also: the arguments are in fact hypotheses that can – and should – be tested. Developing these hypotheses and testing them would make the chapter more interesting.

The methodological discussion on page 83 I found a little confusing. The Heckman Two Stage procedure can be used to deal with item non-response only if all sampled observations in fact do have a true value. If all firms give, but in the sample some firms refuse to give information on their behaviour, the effects of firm characteristics on reporting are taken into account in the second stage. However, not all firms do give. In this case, missing values may mean no giving or refusing to give information on giving. And then there is even a third problem: systematic non-response. Firms that do not give are less likely to participate in a survey on corporate philanthropy. Because firms that do not give are systematically different from firms that do, the results cannot be generalized to the whole population of firms.

Another problem on page 83 is the assumption that all reported amounts are valid. The fact that firms are willing to report an amount does not mean that report is valid.

Finally, chapter 3 would benefit from a systematic evaluation of the theories outlined in the beginning of the chapter based on the empirical results. Which theory is supported most strongly by the results, and why may that be the case? Because some theories are more valid than others or because of methodological reasons? In both cases, it would be good to discuss the implications for research on corporate philanthropy more elaborately, and to discuss implications for the practice of corporate philanthropy.

Reference:
Terlaak, Ann & Andrew A. King (2006). The effect of certification with the ISO 9000 Quality Management Standard: A signaling approach.' *Journal of Economic Behavior & Organization*, 60: 579–602.