

Related topics

Campaign: Annual campaign
 Campaign: Capital Campaign
 Cause-related marketing
 Charitable giving
 ePhilanthropy
 Fundraising
 Microfinance
 Technology and social media

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Crowding out

Definition and context

Do donors withhold their charitable giving to nonprofits when they receive government grants? Crowding out theory suggests “yes.” Altruistic donors may perceive government spending on social services as a substitute for their private donations, theoretically by dollar for dollar (Roberts, 1984; Warr, 1982). As a result, the efficiency of government grants to nonprofits may not be as desired since it may not increase overall support for nonprofits.

This theoretical perspective initiated the research line studying the relationship between government expenditures and private giving. However, the magnitude and direction of the crowding out effect are still inconclusive after several decades of empirical studies.

Application of the theory to the nonprofit sector and challenges

Crowding out knowledge serves as a tool for awareness, cautioning nonprofit professionals about revenue inefficiencies that may occur from governmental support. Revenue inefficiencies occur when, for example, a nonprofit only generates 28 cents in private donations for every government dollar it receives (Andreoni & Payne, 2003).

Crowding out evidence should not be feared. Instead, this information can propel both nonprofit and government professionals to innovate strategies so that the two primary sources of financial revenues for nonprofits can leverage each other. And while there is no standardized approach to applying the knowledge about crowding out into practice, there are fundamental questions nonprofit professionals need to ask when assessing evidence about the effect. The questions and insights below are a good baseline to understand crowding out effects and possible mitigation strategies.

Is the magnitude of the crowding out effect significant?

Consensus about the direction and magnitude of the crowding out effect is mixed (de Wit & Bekkers, 2016; Lu, 2016). The issue of unobserved variables prolongs this inconsistency

because we cannot conclude a causal relationship between the observed fluctuations in both government spending and private giving if analyses do not account for third factors that may affect both (Payne, 2009, p. 163).

Several streams of research have been attempting to address this issue. The earliest research line uses archival data and advanced analysis methods of econometrics. These studies generally find that private donations indeed fall when a nonprofit receives government support. But these lower levels of private donations are more explained by decreased fundraising efforts due to governmental support rather than changes in donors' giving behaviors (Andreoni & Payne, 2003, 2011).

Later another stream of research that utilizes experimental methods became popular. In these experimental designs (e.g., survey, laboratory, and online experiments), researchers analyze if donors change their giving or are willing to give when presented with information about government grants in controlled settings. Through different approaches and platforms, for example, social media advertising (Jilke et al., 2018) and experimental giving lab games (Korenok et al., 2014), experimental studies suggest that donors are ultimately indifferent to information about government funding, and still give to the nonprofit of their choice.

To obtain a definitive answer to the crowding out effect, a few meta-analyses have attempted to summarize a reliable estimation of the effect from different perspectives. Some conclude that the effect of government spending on private donations is minimal and not practically significant (Lu, 2016). Others highlight methodological differences across different studies, showing that experimental research designs yield higher estimates than nonexperimental studies (de Wit & Bekkers, 2016, p. 309).

In practice

Are crowding out effects relevant to my service area?

One key dynamic of the crowding out effect is that it does not affect all nonprofits equally. Nonprofits working in some service areas may be more resilient to crowding out than others. For example, crowding out effects are less

evident in art organizations than social services organizations (Lu, 2016). Explanations about why the effects vary by service area are scarce, but we know that donors may redirect philanthropic giving according to their perceived societal challenges.

Some nonprofits can even benefit from crowding out effects because donors may not *reduce* but rather *redirect* their giving. For instance, governmental support to a nonprofit may prompt donors to redirect their giving to another similar nonprofit, helping sustain focal interventions within a service domain (Ek, 2017). Alternatively, donors may also redirect giving towards marginalized public services – a study of countries with high government support for health and social protection services finds donors redirecting their donations to environmental services, international aid, and the arts (de Wit et al., 2018). Social ties in the nonprofit sector may also impact how nonprofits experience crowding out effects. Nonprofits that are well-connected through board members may experience some redirection of donations from neighboring nonprofits that receive government grants (Ma, 2020). Simply put, crowding out effects are not ionized phenomena, and the funding process is a complex and interactive system.

In the crowding out literature, these mechanisms in which donors redirect their giving are commonly referred to as “cross-wise crowding” or “substitution of giving.” Research in this realm is a relatively new advancement and a promising direction for further studies.

Are there ways my organization can proactively mitigate crowding out effects?

Although there is no definitive answer to whether the crowding out effect is substantial, its awareness and implications on revenue are crucial. With this information, nonprofits can prepare mitigation strategies, for example, diversifying revenue sources or robust fundraising efforts, to mitigate the revenue inefficiencies.

Nonprofits should also take advantage of government grants. They are not only a substantial source for revenue diversification but also signal a nonprofit's financial health and encourage more giving – a phenomenon known as the “crowd-in effect” (Grasse et al., 2022; Steinberg, 1991, p. 592). However, solely

relying on revenue diversification as a mitigation strategy for crowding out may be insufficient because crowding out can happen between different revenue sources, for instance, between different government grants (Zhao & Lu, 2019) or charity spending crowding out government expenditure (Cheng, 2018). These interactions are important for assessing the feasibility of mitigation strategies.

The future

While the consensus on the direction and magnitude of crowding out is weak, scholars have untangled many nuances in the relationship between government expenditures and private donations. A comprehensive discussion on how to handle crowding out effects is beyond the scope of this entry, but the guiding questions and empirical studies presented here are good sources for professionals to assess their organizations' own risk of crowding out.

For researchers, future inquiries about crowding out will continue to rest on robust methodology. There are a few promising directions, especially comparative analyses with emphasis on non-Western cultures, differentiating dynamics between *substitution* of giving and *redirection* of giving (Ma, 2020, p. 251), and the relationship between crowding out and revenue diversification.

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Related topics

Charitable giving
Financing nonprofit organizations
Grant
Income portfolio analysis
Resilience management
Revenue diversification

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Cultural competence

Definitions

Cultural competence is:

Inclusive: It is the respect for, and understanding of diverse ethnic and cultural groups, their histories, traditions, and value systems in the provision and delivery of services (Bush, 2000).

Relational: It is the ability of individuals to understand, communicate with, serve, and meet the needs of those who look, think, and behave differently than themselves (Balcazar et al., 2009).

Multilevel: It is the ability of organizations and individuals to work effectively in cross-cultural or multicultural interactions (Fernandopulle, 2007).

Performance-oriented: It is a set of cultural behaviors and attitudes integrated into the practice methods of a system, agency, or its professionals that enables them to work effectively in cross-cultural situations (Cross et al., 1989).

Adaptive: It is having the knowledge, skills, and values to work effectively with diverse populations and to adapt institutional policies and professional practices to meet the unique needs of client populations (Satterwhite & Teng, 2007).

In practice

The idea of cultural competence has deep roots in service fields such as health care and social work and has more recently been applied to public service settings, including government and nonprofit organizations. The growing interest in, and call for, enhanced cultural competence emerges from the broad recognition that change is an essential element of public service. As communities change, public service leaders must be attentive to the evolving needs of citizens and clients. An attention to cultural competence amid such change is expected to

help ensure organizational relevancy and effectiveness (Rice, 2007a).

Developing cultural competence rests on both organizational and individual investments (Calzada & Suarez-Balcazar, 2014). At the individual level, there must be knowledge and awareness of the need for cultural competency, opportunities for skill development, and a desire to engage in this development. Organizations must provide the necessary support for these efforts. For example, organizations that wish to build cultural competency must invest in training processes that are attentive to the multidimensional nature of this concept, including culturally competent knowledge, skills, attitudes, and behaviors (Getha-Taylor et al., 2018).

Issues

To date, public service organizations may have considered cultural competence as part of their diversity management programs. However, such programs have often focused on addressing racial, ethnic, and gender discrimination, with less attention on actively welcoming and embracing differences, including those related to language, physical abilities, sexual orientation, age, culture, and perspectives. A more inclusive approach to public service can help ensure that programs and policies are meeting the needs of internal and external communities by better identifying and understanding diverse needs. Embracing cultural competence means that we not only tolerate, accommodate, and incorporate diversity into our workplaces, but we also fully embrace and harness the power of differences (Koliba, 2013).

Much of the attention on this topic has focused on how to incorporate the concept of cultural competence into educational tools and pedagogies (Lopez-Littleton & Blessett, 2015). This is a critically important effort since people are not born with cultural competence and current levels can always be developed further. However, while accrediting standards and professional codes of ethics together underscore the importance of valuing diversity and acting in ways that demonstrate justice, fairness, and equity, these guidelines reach only a portion of the public service workforce. A question for those interested in advancing cultural competency is: *how best to diffuse these ideas to the public service community more broadly?*