

Zicklin Center for Business Ethics Research

Giving and Hoarding: How much endowment is consistent with a charitable purpose?

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Abstract

A charity's endowment is savings that are restricted so that the charity can spend only the income from the assets but not the principal. We show that the "optimal" savings level for a charity does not exceed reserves held as a precaution to ensure normal operations during periods of financial difficulty.



More than this constitutes "excess savings." Using established principles of normative ethical theory, both deontological and utilitarian, we show that endowments *per se* are unethical since there is no a priori reason for assuming that the endowment's principal would not do more good if not expended immediately or given to another charity that can put it to immediate use. A corollary implication for donors is that they err when they give to over-endowed charities.

Biographical Sketches

John E. Core

John E. Core is associate professor of accounting at the Wharton School of the University of Pennsylvania. He has a BA from Yale University and a PhD from the Wharton School. He joined the Wharton School in 1996. He has also worked as an investment banker for PaineWebber, as a compensation consultant for Ernst & Young, and as an assistant professor at MIT Sloan School. He serves as an editor of the *Accounting Review* and as associate editor of the *Journal of Accounting and Economics* and serves on the editorial board of the *Journal of Accounting Research* and of the *Journal of Management Accounting Research*. His primary research interests are corporate governance and managerial compensation and incentives, and he also does research on equity valuation and corporate disclosure. He has published in leading accounting and finance journals, including the *Journal of Accounting & Economics*, the *Journal of Accounting Research*, the *Journal of Finance*, and the *Journal of Financial Economics*.



Thomas Donaldson



Thomas Donaldson writes, teaches, and consults in the areas of business ethics, values, and leadership. Books that he has authored or edited include: *The Ties that Bind: A Social Contract Approach to Business Ethics* (Harvard University Business School Press, 1999), co-authored with Thomas W Dunfee; *Ethical Issues in Business*, 7th Edition (Prentice-Hall Inc., 2002), co-edited with Patricia Werhane; *Ethics in Business and Economics-2 Volume Set* (Ashgate Publishing, 1998), co-edited with Thomas W. Dunfee; *Ethics in International Business* (Oxford University Press, 1989); and *Corporations and Morality* (Prentice-Hall Inc., 1982). His book, *The Ethics of International Business*, was the winner of the 1998 SIM Academy of Management Best Book Award. He is currently the Associate Editor of the *Academy of Management Review*, and a member of the editorial boards of a number of journals, including the *Business Ethics Quarterly* and *Studies in Economic Ethics and Philosophy*. His writings have appeared in publications such as *The Academy of Management Review*, the *Harvard Business Review*, *Ethics*, and *Economics and Philosophy*.