Humanitarian Organizations in the Charitable Market: Impact of Spending Ratio, Fundraising, and Transparency on Donations

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Introduction

• During 2014-2016 number of nonprofits grew by 13%, up to 1.8 million organizations, while total donations grew by only 9% [1].
• This increased competition has made humanitarian organizations (HOs) specifically, to experience large variation and unpredictability in their funding, which affects the quality of the services that they offer [2].
• Nonprofits’ predominant strategy to increase donation income is fundraising (3).
• Yet, fundraising diverts funds away from the core programs, based on which donors evaluate HOs’ performance (4).
• Donors are also influenced by other factors such as the HO’s transparency and the media (4).
• The literature presents an ongoing debate regarding the impact of these variables on nonprofits’ donation income. However, these effects are only analyzed in isolation and irrespective of organizational size, resulting in inconsistent conclusions. Also, these effects have not previously been studied specifically for HOs.
• Overall, HOs need more funding, but there is not much clarity among executives or in the literature on how best to achieve that.

Theory & Hypotheses

• Donors favor nonprofits that have budgets devoted to their core programs rather than overhead and prefer organizations with higher program spending ratios, the ratio between program expenses and total expenses (4).
• Increasing spending ratio to very high levels, which means severe limits to fundraising investment, may result in losing donations. Also, this ratio is capped at 1, so its effects cannot be truly linear.

H1A: A humanitarian organization’s program spending ratio is positively associated with the amount of public donations it receives.

H1B: The positive effect of program spending ratio on a humanitarian organization’s donation income is nonlinear and concave.

• Transparency, the voluntary disclosure of financial and programs-related data enables donors to evaluate nonprofits and decide on recipients and amounts of their donations (5).
• However, the effect of transparency is positive only when the entity performs well (6). Therefore, we examine the effect of transparency in interaction with program spending ratio.

H2: The level of transparency of a humanitarian organization accelerates the positive impact of its program spending ratio on public donations.

• For many donors, familiarity with a nonprofit is the first critical factor in their donation decision-making (10). Media exposure is a powerful tool to amplify a nonprofit’s reputation and familiarity.
• Media exposure increases the overall increased donation income (6).
• Potential donors who are solicited in a fundraising event are more likely to donate when they are familiar with the nonprofit and have heard or read about the nonprofit in the media.

H4: A humanitarian organization’s media exposure accelerates the positive impact of its fundraising investment on public donations.

Methods

• 120 HOs from 2000 to 2014
• Data Cleaning: Total revenue <$5M, or total donation income <$500,000
• Sources: Financial information (donations, expenses, assets, etc.) from Form 990 Media information data from Factiva
• Reviewed websites over time for transparency using Wayback Machine (Transparency scores are calculated using Charity Navigator’s method)

• Mixed effects model (random intercept)

Results

• Average marginal effects indicate positive significant effects for program spending ratio and fundraising investment, supporting H1A and H2A.
• The impact of program spending ratio is nonlinear, but contrary to our expectation and as shown in Fig. 1, it is convex and its marginal effect is increasing (partial support for H1B).

Fig. 1. Predictive margins of public donations to medium (left) and large HOs (right).

- Positive significant interaction between transparency and program spending ratio supports H3. As also shown in Fig. 3 A, H0’s program spending ratio has a stronger effect at higher levels of transparency.

Fig. 3. Predictive margins of public donations to medium-size HOs.

- Our results exclude the possibility of a unique policy that can increase the donation income of all HOs. To increase their income, HOs should tailor their plans with respect to their organization size.

Fig. 4. Predictive margins of public donations to medium-size HOs.

- These results caution HOs against high fundraising investment. While a higher fundraising costs increases donation income in the same year, it results in a lower program spending ratio that translates into a negative impact on donations in the future.

Fig. 5. Predictive margins of public donations to medium-size HOs.

- HOs should be aware that transparency alone may not earn the trust of donors if the HOs’ operations are not performing well. At low levels of program spending ratio, transparency could even result in losing donations.

Discussion & Insights

Our results also provide insights regarding the mechanisms of giving. Among different mechanisms [7], efficacy (the perception that donations are effectively used for the nonprofit’s mandate) might be the main mechanism that drives donations to HOs. Figure 5 shows suggested action plans for HO managers based on these results.

Fig. 5. Suggested preliminary action plans for HOs to increase their donation income. Shading represents the level of importance. • these moderately important factor, • these important factor, and • these very important factor.

References