

Philanthropy Corner – 9-30-09
“Debunking the Myths in Fundraising”
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Myths are commonly held beliefs, legends, and folktales that are used to establish models of behavior, which function to uphold current structures, institutions and customs. My grandmother affectionately used myths to describe the impact of certain habits and behaviors, such as don't swim for an hour after eating, chocolate will give you acne and eating carrots improves your eyesight. Over time I learned that many of her sayings were inconsistent with known facts although occasionally I found myself repeating them. Similarly, a number of myths persist in the nonprofit sector that are currently being challenged by scholars that will potentially change how charities fund raise and operate.

Scholars in the fields of economics, business, psychology, and marketing are finding that conventional fund raising wisdom and practices may be based on anecdote rather than scientific research according to studies published in philanthropic journals. Due to the increased emphasis in accountability and the growth of the nonprofit sector, and with the creation of the first Ph.D. program on philanthropic studies at the Center on Philanthropy at Indiana University, there is a growing interest in the study of fund raising principles. Scholarly research using scientific experimental approaches is being conducted to test hypotheses in charitable giving to explore the psychology behind why people give to charity. Laboratory experiments are providing qualitative insights that are then being tested in real world situations by other researchers.

Recent academic research on the affect of gender differences, incentives and prizes, exclusive events, and publicity on charitable giving have been conducted. The results of these experiments summarized in the *Chronicle of Philanthropy* suggest that incentives do foster donations, and men are more likely than women to be interested in incentives like tax breaks and matching gifts. Exclusive private events appeal more to high-profile individuals. Publicly announced gifts, such as a naming opportunity, are an effective fundraising strategy as long as personal treatment given to donors in exchange for the gift is not publicly announced.

Research outside the laboratory has refuted current fund-raising practices about matching gifts and incentives and provides new insights on how to increase giving according to the *Chronicle*. Results of University of Chicago economist John A. List's experiments show that offering larger match ratios (for example matching donors' gifts dollar for dollar versus \$2 to \$3 for every dollar given) does not result in larger gifts. List's studies also revealed that small token gifts do produce different giving results between new and repeat donors, but gifts of a greater perceived value produce little difference. “Philanthropic psychologist” Yue Shang who received a Ph.D. in philanthropic studies from the Center on Philanthropy conducted research on the social and psychological factors behind giving that revealed that sharing details of other donor's gifts resulted in higher gift amounts, although overly high amounts may scare off people.

Research conducted by *Charity Navigator* dispels other commonly-held myths such as most charity leaders are not overpaid. On average only 2-3% of a charity's spending is allocated for CEO compensation. Another myth is that following disasters, relief agencies desperately prefer donations of basic necessities such as food and clothing rather than cash. Also, you can't judge a local charity based on a national name, so donors should check out the efficiency of the local chapter before making a donation. A common myth held by donors is that attending a special event is the best way to support a charity. Although there are advantages to special events that cannot be measured such as raising

awareness and donor cultivation, studies reveal that special events are an inefficient way to raise money in comparison with other methods. A study of over 5,100 national charities revealed that on average charities spent \$1.33 to raise \$1 on special events, compared to an average overall fundraising rate of \$.13 to raise \$1.

Scientific methods using qualitative research, statistical analysis, surveying and segmenting have been applied to evaluate fund raising strategies and programs for years. This new body of academic research will benefit both donors and organizations to further debunk some of the myths and assumptions that have been used to uphold established fundraising principles. However, there is a lot of heart behind philanthropy, and some things may be difficult to quantify and measure. Just like the myths my grandmother delivered from her heart motivated by a concern for the health and safety of her loved ones.

There are many other myths that have been floating around and passed down for generations about nonprofits and what make them successful. One of the biggest misunderstood myths is that charities should allocate 100% of their budgets on core programs and services. If there are other myths that I haven't discussed here, please email them to me for future articles.