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# Web disclosure and the market for charitable contributions<sup>☆</sup>



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### A B S T R A C T

Nonprofit organizations face intense competition in the market for charitable contributions. Increasingly, donation decisions are made online, and organizations have responded by implementing substantive Internet disclosure and reporting regimes. We posit here that the voluntary disclosure of financial and performance information inherent in these regimes provides additional relevant information to a broad array of market participants, and thus has a positive impact on the receipt of charitable contributions. We test our hypotheses on a random sample of 400 US nonprofit organizations by building on the well established *economic model of giving* (Weisbrod and Dominguez, 1986), in which donations serve as the proxy for demand. Our central research question is thus: Are donors willing to “pay” for Web disclosure? Results indicate a positive relationship between the level of charitable contributions and the amount of disclosure provided by an organization on its website; however, performance and annual report disclosure are more important than financial disclosure, and performance disclosure has the biggest impact in organizations that are less reliant on donations.

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## 1. Introduction

In the market for charitable contributions, organizations compete to raise funds from donors willing to help the organization fulfill its social mission. In the United States alone, contributions to the country's 1.4 million registered nonprofit organizations are delivered at the rate of \$300 billion annually (Roeger et al., 2011). Donations effectively form a critical part of the nonprofit revenue stream, and the competition can be intense.

Since the 1990s, two concurrent trends have resulted in electronic disclosure assuming a greater role in this competitive arena. First, as donors and grantmakers alike have placed greater emphasis on results, accountability, and return on investment (e.g., Behn, 2001), the demand for organizational data has gone up. Second, the supply of organizational information from charities, third-party rating agencies, citizens, and the media has swelled in step with the rapid diffusion of websites, blogs, and social media (e.g., Kent et al., 2003; Lovejoy and Saxton, 2012; McNutt and Boland, 1999). The Web has thus become a key information channel to which prospective donors increasingly turn for information on an organization's efficiency, effectiveness, output, and governance (Gordon et al., 2009; Saxton, 2012).

These trends have rendered Web-based organizational disclosure an important component of the nonprofit information environment. Not only does such disclosure help organizations relay their effectiveness and type to potential donors but, in the aggregate, voluntary disclosure plays a key role in maintaining market efficiency and reducing information asymmetries. Yet despite its growing relevance, the Web disclosure-donations nexus has yet to receive any empirical or theoretical attention in the literature.

Our core proposition is that Web disclosure facilitates the broad dissemination of donor-relevant financial and performance information. Because Web disclosure provides information and signals that are useful to donors, we propose donors will be willing to "pay," in the form of increased donations, for quality information disclosed on nonprofit Websites. And because it broadcasts that information widely – thus increasing the number of potential donors – we expect relevant disclosure to be associated with aggregate levels of charitable contributions. In this paper we set out to develop and test a comprehensive framework of such value-relevant Web disclosure. Specifically, we posit that there are two primary forms of value-relevant disclosure – financial disclosure and performance disclosure – and that voluntary disclosures in each of these areas will be associated with greater levels of charitable contributions.

We test our hypotheses in a broad, representative cross-section of the US nonprofit sector using a random sample of 400 501(c)(3) nonprofit organizations. Using a combination of website and IRS Form 990 financial data, we run a series of regressions to examine the relationship between charitable contributions and Web disclosure mechanisms. Results indicate a positive relationship between the level of charitable contributions an organization receives and the total amount of information disclosed in the prior period. However, these effects are not homogeneous across information type. Annual report disclosure and the magnitude of performance disclosure are both associated with increased levels of charitable contributions, while the quantity of financial information is not. Moreover, we find evidence of a conditional relationship, with the effects of performance disclosure decreasing with the level of donor dependency.

This paper makes several contributions to the literature. To start, it presents a theory of the relevance of disclosure – particularly that conducted on the Web – in explanations of aggregate levels of donations. Disclosure thus serves as an extension to existing economic explanations (e.g., Weisbrod and Dominguez, 1986) of charitable contributions, which have relied on fundraising as the sole informational channel. The economic model is further extended by the identification of an important moderating effect of levels of donor dependence. The study also makes a contribution in conceptualizing and specifying two central dimensions of donor-relevant disclosure. Given our evidence here that organizations that are more proficient at online disclosure seem to fare better in the market for charitable contributions, our findings also carry practical implications. Future research should consider our finding that Web disclosure is a key determinant of outcomes in the market for charitable contributions.

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