



The effect of effectiveness: Donor response to aid effectiveness in a direct mail fundraising experiment[☆]



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ABSTRACT

We test how donors respond to new information about a charity's effectiveness. Freedom from Hunger implemented a test of its direct marketing solicitations, varying letters by whether they include a discussion of their program's impact as measured by scientific research. The base script, used for both treatment and control, included a standard qualitative story about an individual beneficiary. Adding scientific impact information has no effect on average likelihood of giving or average gift amount. However, we find important heterogeneity: large prior donors both are more likely to give and also give more, whereas small prior donors are less likely to give. This pattern is consistent with two different types of donors: warm glow donors who respond negatively to analytical effectiveness information, and altruism donors who respond positively to such information.

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1. Introduction

Understanding why people choose to donate to charity is difficult; people give for different and multiple reasons. However, if asked, donors typically like the idea of giving to effective charities. Are such statements cheap talk, or are donors' behaviors consistent with this stated preference? Organizations that believe donors will not respond favorably may underinvest in impact assessment (Pritchett 2002). Here we put forward evidence, albeit on a small scale, that some donors respond favorably to evidence from randomized trials whereas others respond negatively. This behavior is consistent with large and small donors giving for different reasons.

We collaborated with Freedom from Hunger (FFH) to conduct two waves of direct-mail marketing to prior donors. FFH is a US-based nonprofit organization that provides technical advisory services to microfinance institutions (MFIs) in developing countries.

In the first wave, the control group received an emotional appeal focused on a specific beneficiary, along with a narrative explaining how FFH ultimately helped the individual. The treatment group received a similar emotional appeal (trimmed by one paragraph), with an added paragraph about scientific research on FFH's impact. The second wave was similar in design, except that the treatment group narrative included more details on the research, including a brief discussion about the benefits of randomized trials.

We find that *average* donation behavior does not change when previous donors are presented with evidence of the charity's effectiveness in achieving its goals. However, we find that the aggregate effect masks different responses by small and large prior donors: larger prior donors, as measured by the amount given in the last donation before the experiment, donate more and small prior donors donate less in response to being told about the scientifically-measured effectiveness of the charity.

The positive response of large donors is consistent with altruism aimed at effectively supporting the goals of FFH, but the small donor response is more puzzling. It has long been recognized that altruism cannot be the entire explanation for charitable giving, though, as it would lead to complete crowd-out of donations in response to other funding sources, which is not borne out by most estimates of crowd-out (Andreoni 2006). Many researchers have

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suggested other motives less tied to public good production, such as the warm glow of giving (Andreoni 1990).

Recent experiments provide more direct evidence on the warm-glow motives that are part of our model below. Null (2011) looks at how members of service clubs divided \$100 among three charities. Most participants in Null (2011) reveal warm glow motives by giving to multiple charities, which is incompatible with risk-neutral altruism (risk neutral altruists would give the entire \$100 to the charity with the highest expected impact). In another direct test of warm-glow preferences, Crumpler and Grossman (2008) observes that most subjects gave to a charity even though their donation crowded-out one-for-one a donation by the experimenters.

Some prior research also finds differences in charitable giving between small and large donors. Using a panel data set on charitable donations, Reinstein (2011) finds that larger donors have more “expenditure substitution” in charitable giving. He finds that a temporary shock such as a personal appeal that increases donations to one charity decreases donations to other charities for large donors but has little effect on other donation decisions by small donors. Reinstein suggests that small donors are responding primarily to temporary shocks or personal appeals, while large donors have other motives.

DellaVigna, List, and Malmendier (2012) also provides evidence, from a field experiment, that small donors have different motivations than large donors, in this case focusing on social pressure. Individual donations were observed during a door-to-door fundraising campaign. One-third of addresses were simply visited by fund-raisers, while another third were informed the day before the visit that the visit would occur, and a final third were informed and given a check-box form that they could use to opt out of the visit. Allowing subjects to avoid the fundraisers reduced the share of subjects answering the door and also reduced giving by small donors, but not larger donations. Their interpretation is that small donors in this context are primarily motivated by social pressure or avoidance of an annoyance. Although we examine the distinction as well between small and large donors as well, there are two notable differences in our setting: first, our respondents had previously given to the charity, thus expressed some preference for supporting them and less likely to give merely out of social pressure; second, as a direct mail experiment there was no human interaction, thus we argue that the likelihood of giving out of social pressure is quite low in our experiment.

Of course, warm glow motives are not the only non-altruistic motivate for giving. For example, subjects may want to signal a meritorious motive to themselves or others (Bodner and Prelec 2003; Bénabou and Tirole 2006; Karlan and McConnell 2014). While social signaling seems unlikely to be a major factor in our subjects’ decision-making as their donations are never observed publicly, self-signaling could be a factor in donor behavior in our context.

Providing further evidence of non-altruistic donor motivations, several laboratory experiments have found that emotionally triggered generosity may be dampened by appeals that include statistical or deliberative information. For example, people donate less to feed a malnourished child when statistics that put this child in the larger context of famine in Africa are mentioned (Small, Loewenstein, and Slovic 2007). Similarly, people expressed diminishing willingness to fund clean water that would suffice to save the lives of 4500 people in a refugee camp threatened by cholera as the population of the camp increased (Fetherstonhaugh et al. 1997). Small, Loewenstein, and Slovic suggests that deliberate thinking decreases the emotional appeal of identifiable victims without a commensurate increase in motivation to give to statistical victims, which causes a drop in donations. Although relevant for our study, it is important to note a key difference: neither of these experiments focuses on effectiveness of the charity, but

rather each focuses on the depth of the need, and the number of people in crisis. Our treatment wording does not suggest mention need at all, but instead effectiveness.¹

Our work also builds on a growing and pragmatic literature on how donors respond to information about charities, such as Yoruk (2016), which studies, with a regression discontinuity approach, how donors respond to Charity Navigator’s 5 star rating system. Charity Navigator uses mostly financial and governance data, i.e., not data of impact of the work of the charity. Yoruk finds that for otherwise similar charities, a one-star rating increase leads to 19.5 percent higher donations if the charities are relatively unknown, but that the rating increases have no effect on better-known charities.²

2. Motivation and model

Following a paradigm put forward by Kahneman (2003) we explore a model of giving that incorporates two motivations for giving, altruism (akin to Kahneman’s System II decisions, which are deliberate, effortful, reasoned and focused on impact) and warm glow (akin to Kahneman’s System I decisions, which are intuitive, effortless and reactive). The model makes an important prediction: that individuals driven by altruism, holding all else equal (such as wealth and education), will respond favorably to information about the effectiveness of a particular charity, whereas those driven by more emotionally-based triggers may actually reduce giving.

Our model is inspired by research that deliberation can interfere with emotional impulses for giving (Small, Loewenstein, and Slovic 2007). Our basic assumption is that donors get utility from donations through: (1) altruism, in which the donation affects utility through the increased social welfare generated by the donation, and/or (2) warm-glow, in which the act of donating increases utility directly. This model makes the case that donation size is a proxy (no doubt imperfect, empirically) that allows us to sort by giving type, and that different giving types respond heterogeneously to analytical aid effectiveness information.

We adopt an important distinction between altruism and warm-glow, also made by Null (2011): altruists view charities as perfect substitutes and so respond to differences in charity efficiency, while warm-glow donors value the act of donating and are not responsive to efficiency. More generally, some gifts may be more likely given casually, simply to participate or to appease social pressure (DellaVigna, List, and Malmendier 2012), without much concern for effectiveness. As long as these motivations for giving are not responsive to the impact of donations and instead stem from stronger emotional attachment to the charity, they could yield similar predictions to warm-glow. We refer to the non-altruistic component of utility as “warm glow” while recognizing that warm glow refers more particularly to a joy of giving motive. Our data do not allow us to distinguish sharply between some of these motives, and we will discuss alternative interpretations following our results.

Our subjects divide their income y into a donation to a charity, g , and consumption net of giving, c . Utility from charitable giving stems from two sources, altruism and warm-glow. Utility is quasi-

¹ In addition our data come from the normal operations of a nonprofit organization, without risk of individuals behaving differently because they are aware that their responses will influence a research study (see Levitt and List 2007 for a discussion of these methodological issues).

² Many leaders in the philanthropic space (including the leaders of Charity Navigator, see <http://www.overheadmyth.com>) have criticized the use of overhead and management ratios, but little is available to donors beyond such data on a comprehensive level (e.g., Givewell.org, an alternative charity evaluator, focuses strictly on evidence of impact per dollar donated and room for growth, but in each year has named typically between 3 and 10 charities, in a limited number of causes).

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