



Social distance and quality ratings in charity choice[☆]



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ARTICLE INFO

Article history:

Received 16 April 2014

Revised 5 January 2016

Accepted 11 April 2016

Available online 20 April 2016

Keywords:

Charitable giving

Quality ratings

Social distance

Experiments

Philanthropy

Altruism

ABSTRACT

We conduct a laboratory experiment to examine how third-party ratings impact charity choice and donative behavior, particularly in regards to preferences for local charities. Subjects are given a menu of ten charities, with a mix of local and non-local organizations included. We vary whether third-party ratings are displayed on this menu. Subjects perform an effort task to earn money and can choose to donate to their selected charity. We find evidence that subjects' choice of charity is impacted by third-party evaluations but, somewhat surprisingly, there are no obvious preferences for local charities. These third-party assessments have some impact on the percent of earnings that subjects allocate to their selected charity; local charities also accrue more donations, though these results are imprecise.

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1. Introduction

It is a commonly-held belief that individuals prefer to give to local charities, much as “buy local” movements have become increasingly common. For example, Kentucky, among other states, has a day dedicated fundraising for local charities. Kentucky Gives Day raised over \$440,000 in one day for local charities in 2014 (Stacy, 2014). With numerous charities, many with closely-related missions, it is unsurprising that donors turn to third-party ratings, such as Charity Watch and Charity Navigator, as a shortcut to select charities. Yet a recent survey found that only 35% of donors do any research before giving (Hope Consulting, 2010); donors may use a charity's prominence as a heuristic for its quality, but this approach may be in conflict with preferences for more local charities (DellaVigna et al., 2012; Meer, 2014), which are likely to be less well-known.

* We would like to thank the Texas A&M Humanities and Social Science Enhancement of Research Capacity Program, Texas A&M College of Liberal Arts Seed Grant Program, and the College of Liberal Arts at Texas A&M for providing generous financial support for our research. We have benefited from comments by Catherine Eckel, Ericka Farret, Jason Lindo, Steve Puller, and seminar participants at Chapman University, George Mason University, the University of California – San Diego, Washington State University, and conference presentations at 2013 Biennial Social Dilemmas Conference, the 2013 Stanford Institute for Theoretical Economics, and the 2012 and 2013 North American Economic Science Association Meetings. We would also like to thank Xiaoyuan Wang and Jeremy West for helping to conduct the sessions.

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We conduct an experiment in which we vary the information about charities and ask subjects to choose a charity to which they may donate. Subjects are presented with a menu of charities with both local and non-local charities serving the same causes; in some treatments, third-party ratings are presented.¹ To our surprise, we find that subjects do not exhibit strong preferences for local charities. Third-party evaluations of the charities tend to have an impact on the selection of a charity; there is some impact on donative behavior, but since the choice of charity depends on the rating, it is difficult to ascribe a causal interpretation to these results.

2. Literature review

Social identity theory, which is formalized in economics by Akerlof (1997) and Akerlof and Kranton (2000), suggests that individuals will treat in-group members more generously than others. Chen and Li (2009) provide an extensive review of the early literature. In recent work, Agrawal et al. (2013) show that social distance may not be as large of a concern in internet crowdfunding, finding that the average donor is roughly 3000 miles from the artist to which she donates. In a similar vein, Meer and Rigbi (2013) find that lenders of micro-loans are impacted on the margin by the transaction costs of language translation, but not location of the borrower; though Meer (2014) shows that donors who live in the same area as a teacher requesting funds at DonorsChoose.org are less sensitive to the price of giving, suggesting a preference

¹ Throughout the paper, we use “non-local” and “national” interchangeably.

Table 1
Charities Used.

Charity	Location	Type	SECC	Charity navigator
Special Olympics	Non-Local	Special Needs	Yes	Yes
Camp for All	Local	Special Needs	Yes	Yes
Humane Society of America	Non-Local	Animal	No	Yes
Brazos Animal Shelter	Local	Animal	No	No
Save the Children	Non-Local	Children	Yes	Yes
Scotty's House	Local	Children	Yes	No
Doctors without Borders	Non-Local	Health	Yes	Yes
Health for All	Local	Health	Yes	No
Feeding America	Non-Local	Food Security	No	Yes
Brazos Valley Food Bank	Local	Food Security	Yes	Yes

for local projects. And in an experiment with door-to-door solicitation of charitable gifts, DellaVigna et al. (2012) find that there are preferences for less-distant recipients of philanthropy. In a complementary paper in this special issue, Al-Ubaydli and Yeomans use a field experiment on volunteer tax preparers and their clients to examine the identifiability effect. They find that the volunteers are more likely to make an additional donation with a single recipient, but the clients are less likely to do so. Their study suggests that this effect is context-specific and perhaps more fragile than previously thought.

Quality metrics may also influence the behavior of potential donors. Previous work shows that consumers respond to ratings and reputation (or lack thereof) of sellers (e.g., Reinstein and Snyder (2005); Jin and Sorensen (2006); Luca (2011); Varkevisser et al. (2012); Brown et al. (2012); 2013a)). For charities in particular, Chhaochhari and Ghosh (2008) find that charities with the highest ratings received sixteen percent more charitable donations than those with the lowest ratings. Similarly, Gordon et al. (2009) find that increases in the number of stars awarded by Charity Navigator leads to an increase contributions to the charity. Using a regression discontinuity design, Yoruk (2013) illustrates that the impact on donor contributions of an additional star in Charity Navigator's rating system is a function of charity size and current rating; for small charities, a one star increase from two to three or three to four stars leads to a roughly twenty-eight percent increase in the amount of donations received by the charity. Conversely, Grant (2010) finds that donors over-rate charities and that, once rated, donors decrease their giving – especially for lower rated charities. Szper and Prakash (2011) use charities within Washington state and find no relationship between charity ratings and contributions from donors. Yet the difficulty with much of this research is that the ratings information is not necessarily seen by the prospective donors, and it is not randomly assigned to the individual.² Given the laboratory setting, our study ensures both that subjects are aware of the ratings and that there is variation within a charity in its rating.

3. Design and procedures

The experiment consisted of subjects choosing one of ten charities from a menu and then performing an effort task for 75 minutes. The work done during the effort task could – at the subjects' discretion – benefit their chosen charity. The way the subjects' efforts could benefit their chosen charity depended on the treatment. A subject had the opportunity to give money,

time, or both to their chosen charity (further detail is provided in Section 3.2). The differential effects of these methods of giving on donative behavior is the focus of another paper, Brown et al. (2013b), which illustrates that subjects exhibit strong preferences for donations of time, even when donations of money have far greater returns for the recipient charity.

The focus of this paper is how the presentation of information affected the initial choice of one of the ten charities in the experiment. As described in Section 3.1, charities were either categorized by location or type and information about one of two third party ratings could be disclosed. Thus, one could classify this experiment as a 3×2 design: [no information, SECC, CharityNavigator] \times [location, type].³

3.1. Charity selection

At the beginning of the experiment, subjects were informed they would have to select one charity from a menu of ten charities which included descriptions.⁴ The ten charities are listed in Table 1. Charities were randomly sorted on the screen into one of two different menu styles, organized either by location (local vs. national) or by type of charity (e.g. food security, special needs, etc.). The order of the relevant categories was randomized, as was the order of charities within each category. This random sorting was done to help assuage any concerns of anchoring effects from specific menus. An example menu can be seen in Fig. 1. The description of the charities activities is taken directly from the charities' homepages with minor changes.⁵ Subjects were given up to four minutes to review the options available to them and select their charity. Each subject knew that her choice was finalized once selected and understood that selection of a charity did not require

³ If we separate by donative method, this becomes a $3 \times 2 \times 3$ design, [no information, SECC, CharityNavigator] \times [location, type] \times [money, time, money & time]. However, we pool all observations on donative method because these treatments does not have an effect on charity choice. A chi-squared of charity choice by treatment shows that there is no significant relationship between the two ($p = 0.62$). Regardless, we include controls for treatment in our regression analysis.

⁴ There are tradeoffs to the number of charities used in any experiment. A high number of total charities increases the likelihood a subject will find a charity that he/she wishes to contribute. However, too high a number may cause choice overload (Iyengar and Kamenica, 2010), meaning the choice of the subject is not his/her preferred charity. We chose ten charities here because we identified five distinct types of charities that had a both a local example operating in the Brazos Valley – the seven-county area around College Station, Texas – and an unrelated, national counterpart. We do not believe choice overload is an issue in this design, because these ten charities were categorized for subjects; surveys after the experiment showed subjects preferred the charity they chose; and few if any subjects took more than two minutes (of four possible) in making their decision.

⁵ We removed pronouns which might be considered loaded language so that all descriptions were neutral.

² A recent exception is a laboratory experiment by Butera and Horn (2014), which illustrates that image conscience donors may treat quality information and the size of their gift as substitutes and that when giving is private, individual donors largely ignore bad news about the charity.

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