Toward an understanding of why suggestions work in charitable fundraising: Theory and evidence from a natural field experiment ☆

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ABSTRACT

People respond to those who ask. Within the charitable fundraising community, the power of the ask represents the backbone of most fundraising strategies. Despite this, the optimal design of communication strategies has received less formal attention. For their part, economists have recently explored how communication affects empathy, altruism, and giving rates to charities. Our study takes a step back from this literature to examine how suggestions–a direct ask for a certain amount of money–affect giving rates. We find that our suggestion amounts affect both the intensive and extensive margins: more people give and they tend to give the suggested amount. The resulting insights help us understand why people give, why messages work, and deepen practitioners' understanding of how to use messages to leverage more giving.

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1. Introduction

With private donations to charitable organizations at roughly 2% of GDP, a growing economic literature has begun to analyze the mechanisms of individual charitable giving. Naturally-occurring data and field experimentation have shown that giving can be substantially affected by changing the effective price of giving (Randolph, 1985; Karlan and List, 2007), the method of solicitation (Landry et al., 2006), various signaling devices (List and Lucking-Reiley, 2002; Spencer et al., 2009; Potters et al., 2007; Bracha et al., 2011), the revealing of donors' identities (Soetevent, 2005), and the communication of social information (Frey and Meier, 2004; Croson and Shang, 2008; Shang and Croson, 2009).[1]

This study contributes to the literature by exploring how giving is affected by simply suggesting a specific donation during solicitation. Importantly, and in contrast to previous work, we run a natural field experiment that offers a direct comparison between a suggestion treatment and a no suggestion control, and allows the effect on giving to be measured both on the intensive and extensive margins. The experiment is accompanied by a theoretical framework that augments the seminal impure altruism model of Andreoni (1988, 1989, 1990) to offer several channels through which direct amount suggestions have the potential to affect giving patterns. In addition, this framework develops a general formal structure to gain insights on recent empirical results on information in the ask (e.g., Frey and Meier, 2004; Croson and Shang, 2008; Shang and Croson, 2009) and optimal communication strategies in general.

With our theory as a backdrop, we designed a natural field experiment in partnership with the University of Wisconsin-Stevens Point's (UWSP) development office. As part of a fundraising phonathon for UWSP, we contacted recent alumni by using a script that was standard for the university. We randomly varied the message content to either include a direct suggestion for a donation amount ($20), or no such prompting. The suggestion amount was also varied to analyze if a more "personalized" amount had greater power to affect donation patterns (for example, those who graduated in 2003 were asked to donate $20.03). Finally, a factorial design was used to observe whether the treatment effect was influenced by offering a 1-to-1 match.

We find some interesting insights. We document a large and economically significant increase in the number of subjects donating in response to the direct suggestion. Beyond a test of theory, this result is particularly important in a practical sense since it aids fundraisers on one of their most important tasks: finding new individuals to build a donor pyramid which can be tapped on for years to come. In addition, we find a strong treatment effect of moving observed donations toward the suggestion amount. Most notably, the percentage of donations above the suggestion amount is substantially reduced relative to the control. The observed effect on donation amounts is in the same direction, though larger, than those reported in Shang and Croson (2009).

The overall pattern of the treatment effects is consonant not only with the idea that the marginal utility of donating the suggested amount is increased, but also that there is decreased marginal utility associated with exceeding this amount. Because our ask amount was below the mean of the no-suggestion control, we observe only marginally significant changes in average revenue per contacted donor. The specific changes in donation patterns we find highlight, however, that an optimal suggestion amount can be used to increase revenues in any

environment. This method can be particularly fruitful in terms of revenue enhancement should the fundraiser have an ability to characterize individuals by predicted pre-suggestion contributions and provide different suggestions as a function of this amount.

Second, while there is evidence that the personalized ask raised giving rates compared to the generic ask, the effects are not significant at conventional levels. When taking into account those who reneged on their initial pledges, however, the personalized ask outperforms a numerically similar generic ask. This result highlights that personalized messages can increase actual giving rates, but the channel in which they work is noteworthy: the personalized ask does not work immediately, but it causes people to stick to their pledge promises. Finally, we find that the match works to enhance giving, but the data are too noisy to make strong inference.

The remainder of our study is constructed as follows. The next section discusses how our work fits within the broader literature. Section 3 presents our theoretical framework. Section 4 summarizes the experimental design. Section 5 discusses the empirical results. Section 6 interprets our results through the lens of our theoretical model. Section 7 concludes.

2. Relationship to existing literature

While asking for specific donation amounts is a tactic employed by many charitable fundraisers, there is scant empirical research on the effect of suggestions on contributions. Warwick (2003) reported the results of a number of direct-mail experiments which varied the donation amount suggested in the request letter. Although presented without comment, in their totality they intimate that lower suggestion amounts increase donation rates compared to higher amounts, but insignificantly affect the level of donations. Importantly, none of his experiments compare suggestions to a no suggestion control. Weyant and Smith (1987), also in a direct-mail setting, vary the donation options listed on their request letters ($5–$10–$25 vs. $50–$100–$250) and also include a no option control. Low response rates, however, greatly decreased the power of their experiment. While they found a significant increase in donation incidence for the low suggestions compared to high suggestions, their results were unable to provide conclusive inference in comparison to giving rates between these treatments and the no suggestion control. In terms of donation amounts, no conclusions could be drawn, again from a lack of power. Another set of papers related to our analysis is on the "every penny helps" effect (Cialdini and Schroeder, 1976; Reingen, 1978; Weyant, 1984). By telling potential donors that "every penny helps", these experiments were able to increase donation rates by around 20%.[2]

In the more recent field experimental literature on the effect of information on giving, our study is closely related to the research of Shang and Croson (2009) and Frey and Meier (2004). The Shang and Croson field experiment announced the donation of another donor to individuals who had contacted a local radio station for the purpose of contributing. They were able to increase mean donation amounts with high announced donations, and also decrease mean donation amounts with low announced donations (in the companion paper Croson and Shang, 2008). The results were significant both statistically and economically, particularly in their most successful treatment levels (contribution level means were increased 12% relative to the control for announcements in the 90% percentile of observed contributions). Frey and Meier announced to contributors the percentage of a population that had donated (46% or 64%), and found a somewhat smaller effect on the percentage of individuals donating (positive but non-significant for the population, and significant for a subpopulation of individuals deemed most likely affected by the treatment).

Both pairs of researchers interpreted their results as suggesting that the announcement affected individuals' donation behavior by changing their perception of what constituted a "normal" behavior from the population as a whole. The fact that donation patterns moved in the direction

of the signaled societal norm indicated that the individuals had a strong desire to conform to that norm. The basis behind this oft-observed pattern of individual conformity to group behavior was formalized by Bernheim (1994), who argued that agents will conform to a single behavior despite heterogeneous preferences if social status makes up a sufficient portion of intrinsic utility. When these behaviors are visible to other agents, this effect is related to the prestige donation model of Harbaugh (1998), which has been used to explain increases in giving when donor's identities are revealed (Soetevent, 2005) or when amount categories of donors are published (Li and Riyanto, 2009). While such an effect would seem to be dulled when behavior is apparently not visible to other agents, movement of donations to a perceived norm may still occur if the norm is a signal of the charity's quality (Vesterlund, 2003), an indication of the marginal effect on the public good, or if the agent receives intrinsic utility from conforming to a norm behavior.[3] A companion paper to Shang and Croson (2009), Shang et al. (2008), supports the conclusion that there is a social effect occurring by finding a stronger effect when the announced donor was the same gender as the individual compared to when they were the opposite gender.

If potential donors' decisions are indeed affected by information on other agents' norms, then an important market agent (and one to which the individual's decision is by definition visible) is the fundraiser herself. The fundraiser's information set in regards to the public good also greatly exceeds that of other agents. She presumably has a knowledge of all agents' donation decisions, as well as information on the production function of the public good (with the corresponding knowledge of how much marginal effect or "difference" a specific donation amount would make on that good). Since the fundraiser obviously does not face the same donation decision as other agents, her "norms" are not a behavior, but the underlying attitudes that were expressed in other agents' decisions and, as discussed above, made information on other agents' norms valuable to each donor.

Our study seeks to contribute to the literature by examining the effect of suggestion amounts on giving patterns, and determining if their use can be exploited to increase fundraising returns. The theoretical framework that we build seeks to explore the possible mechanisms through which an effect on giving could take place. Although we do not claim that our experimental design offers clean inference between these competing explanations, we see both the framework and our experiment as part of the broader literature on the effect of social information on giving, and how this information potentially affects giving patterns.

3. Theoretical framework

To more formally examine the possible avenues through which the suggestion of a donation amount could have an effect on the donation distribution, let there be $n = 1, ..., N$ non-symmetric potential contributors to the public good being produced by the charity. Let the donation amount of each individual be given by G_n, the amount of consumption of a numeraire outside good be given by Y_n, and the total income of the individual be I_n. Let each individual have a utility function:

$$U_n\left(Y_n, G_n, \sum_n G_n, A_n, \theta_n\right)$$

where $A_n \in \mathbf{A}$ is a quality perception variable that affects the individual's marginal utility of the provision of the public good, and $\theta_n \in \boldsymbol{\theta}$ is a vector of generic parameters that affect utility. We include some uncertainty on behalf of the agent regarding the provision of the public good by other agents, making the agent's utility based on the expectation $E_n\left[\sum_{n' \neq n} G_{n'}\right]$. Furthermore, we assume that the utility function has

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[2] Relatedly, Dale and Morgan (2010) present results from a laboratory experiment that shows that moderate suggested donations produce some positive effects.

[3] This could result from some psychic cost such as the idea of paying one's fair share (Vesterlund, 2003), or if conforming to the norm is a learned action as part of a larger behavioral strategy.