

Economists Spurn Conventional Wisdom to Boost Fundraising

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John List and Uri Gneezy say charities should run their own experiments instead of following rules of thumb for raising money.

Photo of John List by Lloyd De Grane

When Brian Mullaney was head of Smile Train, a big children's charity, he asked John List, a University of Chicago economist, to help him find a better way to recruit donors through direct mail. He was stunned by Mr. List's response: "Promise people that if they make a donation, you'll never ask them for money again," the economist advised.

Mr. List helped Mr. Mullaney develop a test mailing that allowed people to check a box saying they did not want to be asked again for a contribution.

“Did I think it was a crazy idea? Absolutely,” Mr. Mullaney recalls. “But response just soared.”

Those who got the mailing with the promise not to be solicited again made donations at nearly twice the number of those who received the old-style mailings.

But that was hardly the best news for the charity: Only one-third of donors checked the box. That meant Smile Train could keep sending appeals to all the people who didn’t check the box and avoid wasting money on people who made it clear they did not want to get more pitches.

Now Mr. Mullaney is using the approach again to find new donors for 20/20/20, a project to fight blindness that is offered by WonderWork, a charity he helped start in 2011. This year, he expects the mailings to recruit 200,000 donors.

“This is how we recruit all of our donors now,” he says.

The “no more appeals” promise is just one fundraising innovation outlined by Mr. List and Uri Gneezy, an economist at the University of California at San Diego, in their new book, *The Why Axis: Hidden Motives and the Undiscovered Economics of Everyday Life*.

The two scholars provide plenty of evidence to rebut conventional fundraising wisdom and suggest that charitable giving is more about reinforcing the donor’s own well-being than helping others.

They say that a failure to understand this motivation hurts charity fundraising: Nonprofits make their appeals based on the idea that donors want to help others, when really they want to help themselves.

The authors also provide a colorful account of their many trips across the country and around the world to help fight social ills such as sex bias, school shootings, and obesity.

In recent years, Mr. List has stepped up the amount of research he has done on philanthropy. He received \$4.8-million from the Templeton Foundation last year to create the Science of Philanthropy Initiative, a three-year project with the aim of applying the rigors of research to find out what really works in fundraising, a field often heavily dependent on anecdotes and hunches.

Both economists believe that charities should follow their example by conducting studies of their own.

“The manager who runs his charity by anecdotes or rules of thumb is an endangered species,” Mr. List says in an interview. “You are going to have to use data and scientific findings to be competitive.”

Testing What Works

Unlike other economists who rely on theories or laboratory experiments that mimic real-world situations, Mr. Gneezy and Mr. List use large-scale field experiments to test how people respond to different conditions in their everyday lives. None of the subjects in their

experiments know what the tests are for or anything about the hypotheses the scholars are considering.

The researchers hope the approach will help them learn what really motivates people and guide them in developing incentives—economic and other types of rewards—that raise more money for charity and make the world a better place.

In one experiment, they discovered an effective way to persuade companies it would be in their interest to help charities.

By unobtrusively watching how people at Disney World responded to an offer to “pay what you want” for a photograph of themselves taking a thrill-seeking ride, for example, Mr. Gneezy found that people paid far more when the offer said that half of the fee would go to charity.

When people could pay whatever they wanted, those who chose to buy the photo gave \$1, on average. When the offer promised that half would go to the Make-a-Wish Foundation, which grants wishes to sick children, fewer people bought the photo. But those who did paid five times as much for it, on average.

Fundraisers can use that finding to appeal to companies’ perennial desire to make more money.

“Adding the charity option proved very profitable,” the economists write. “In fact the amusement park stood to make \$600,000 a year by offering the pay-what-you-want/charity combination in just this one location.”

There’s also a lesson for companies: “If you want your client to act unselfishly, you need to show you can do the same,” they write. Disney “signaled to its customers that it cared about charitable causes and, more important, was willing to share the risk of acting on that concern.”

Matching Formula

Mr. List has also spent a lot of time testing whether matching-gift offers work—and he says the results have shown him that altruism is probably not the major motivator for giving.

While fundraisers often think that offering to match contributions with \$2 or \$3 for every dollar a donor gives will prompt people to give more than a simple dollar-for-dollar match, Mr. List’s tests with thousands of direct-mail donors has found that a one-on-one match works just as well as offering more.

If donors really cared about beneficiaries, more of them would go for the two-to-one or three-to-one match, because that would raise even more money to help people, says Mr. List.

But a simpler dollar-for-dollar match works just as well in campaign after campaign.

“My overarching feeling is that people give to make themselves feel good,” Mr. List says. “Instead of advertising fundraising drives as helping another person, fundraisers should instead focus on how the gift will make the donor feel.”

He says he hopes to put that idea to the test in a future field experiment.

Heeding Self-Interest

One reason the Smile Train appeal was so successful, says Mr. List, is that it’s based on that idea that donors give more out of self-interest than altruism. Telling people they can give once and never be asked to give again appeals to self-interest.

“If you give me something I desire, I’ll reciprocate, but it’s not necessarily to help kids.”

Even philanthropists who give millions of dollars to charity are acting out of self-interest, Mr. List says: They receive hefty tax breaks that substantially reduce the out-of-pocket cost of a donation.

Yet charities and fundraisers continue to shape their appeals with the idea that people give because they want to help others.

That’s one reason why Mr. List and Mr. Gneezy plan to keep doing field experiments with charities and donors, to determine what kinds of solicitations will unleash more giving. “We want to revolutionize the nonprofit sector with the science of experimentation.”