

Popular Fundraising Practices: How Well Do They Work for Advocacy Groups?

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Abstract

Background/Context:

Relatively little research has been done on the connection between commonly-used fundraising practices and an organization's overall revenue. Development directors choose strategies based on rule of thumb more often than on scientific evidence. The demand for measurable fundraising success in the nonprofit world points to a need for research-based fundraising models that can help development directors choose the right practices based on their nonprofit's circumstances.

Purpose/Objective/Research Questions/Focus of Study:

In this study, five popular fundraising practices -- conditional ask-strings, giving clubs, matching campaigns, sustainer programs, and second-gift asks -- are examined using organizational revenue as the continuous, dependent variable. The study sets out to determine if there is a difference in organizational revenue based on the extent to which nonprofits use these practices.

Research Design:

A 20-question survey was administered to gather information on how organizations use each of the practices. It measured usage frequency for conditional ask-strings and second-gift asks; usage emphasis for matching campaigns and sustainer programs, and usage type for giving clubs. Survey responses were matched with IRS administrative records, which included revenue, to create organizational profiles on 162 nonprofits. Between-groups ANOVA was used

to detect whether there was a difference in revenue across organizations that were distinguished by their usage level of a particular fundraising practice.

Conclusions/Recommendations:

Organizations that employed strategic use of the five individual giving fundraising practices outperformed their less strategic counterparts and experienced higher revenue. These findings contribute to a better understanding of what leads some organizations to outperform others and achieve financial stability. In addition to informing management decisions surrounding fundraising practices, this investigation highlights the potential of a modeling framework for predicting success to explain why some organizations succeed in fundraising more than others and which practices fit conditions found in advocacy organization.

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Literature Review

Research has demonstrated that nonprofits face considerable difficulty identifying and implementing fundraising best practices (Leach 2008). Deficiencies in this area lead to financial instability and staff turnover, and in severe cases, result in an organization's demise (Bell & Cornelius 2013). Since the 2008 economic collapse, nonprofits have been under considerable pressure to improve fundraising results. However, annual benchmark reports suggest that they have not met expectations, yielding only modest increases.¹ In response, there has been a push to find strategies that are cost-effective and easy to implement; effective at retaining and upgrading current donors (Barber & Lewis 2013; Sargent 2008); and proven to work in a variety of settings.

While some studies have examined the success of targeted campaigns (Edwards 2013; Whitaker 2014) an important omission in the current research concerns evidence-based studies that evaluate popular fundraising practices in reference to overall revenue. Looking at just a single campaign can lead to the impression that a particular practice brought about an increase in giving, when in reality, it may just have shifted dollars from one practice to another (Hrywna & Sullivan 2013; Whitaker 2014). Current fundraising research makes it difficult to tease apart the impact of overlapping strategies.

Another omission in the research regards fundraising activities within advocacy groups, a growing category of nonprofits that face unique challenges (Fuld 2015). Fundraising is often presented as one size fits all in annual surveys on industry-wide practices. Results are segmented by the general categories under the National Taxonomy of Exempt Entities classification

¹ Giving USA, Nonprofit Research Collaborative/Urban Institute.

system,² which fails to account for the fact that advocacy organizations are present in every NTEE category. Under the general category code, arts alliance groups are lumped together with museums, education reform groups with schools, and so on. This raises a concern of how valid this research is for advocacy organizations and points to the need for more studies into fundraising strategies that work for this specialized group.

Current Study/Research Design

In the current study, I use a homogeneous, purposive design to test the hypothesis that advocacy organizations that strategically implement five popular fundraising practices experience higher overall revenue than those that use the practices intermittently, place a low emphasis on them, or don't use them at all. While these nonprofits work on a wide range of issues—environment, crime & legal issues, international affairs, civil rights, social justice and advocacy—they share a common thread in their desire to change policy through legislative, legal, and administrative means. These groups frequently employ organizers to mobilize their members and legislative directors to manage policy initiatives. Their 'products' are policy briefs, position papers, and testimony. While some, such as legal aid services and child advocacy centers, perform direct service, their services are generally advocacy-related on behalf of clients.

Methods

Before collecting data, I determined the study population using four parameters—organization type, revenue, IRS ruling date, and tax filing period—to ensure that all participants shared similar characteristics. I limited the organization type to nonprofit advocacy organizations by using extended NTEE codes that included general category and type of organization.³ I

² The *National Taxonomy of Exempt Entities (NTEE)* system is used by the IRS and NCCS to classify nonprofit organizations.

³ The 01 code is used for "Alliances and Advocacy: Organizations whose activities focus on influencing public policy within the larger category, includes a variety of activities from public education and influencing public

selected revenue (\$500,000 to \$20 million) to keep organizations close in size and staffing. I used the tax-exempt ruling date (2010, or before) to ensure participants had been operating for a minimum of three years, and I used the tax filing period (Sept. to Dec. 2013) to ensure that all revenue corresponded to the same time period.

The five popular practices were chosen because they are relatively easy to implement and cost-effective. The average nonprofit—with or without development staff—can set these practices in motion with its available resources. They don't require specialized software or technical expertise. Nonprofits don't need a strategic plan or and. Additionally, they've proved successful in a variety of nonprofit settings.

Data Collection

This study relied on administrative records and survey responses for its data analysis. I downloaded 1,486,341 administrative records from the IRS Exempt Organizations Business Master Files⁴ and sorted the records by the parameters described above. This narrowed the population to 1,006. For contact information, I identified an appropriate staff person from each organization to receive the survey and recorded the person's name, email, and phone number. Preference was given to development staff, but if no development staff was present, the executive director was selected. In a few instances there was no staff at all, so the board president was used. Sufficient contact information was found for 77 percent of the organizations, which left 778 organizations in the study population.

To collect information on the organizations' fundraising practices, I created a 20-question survey to measure consistency, frequency, and emphasis of the five practices being measured.

opinion to lobbying national and state legislatures.” The 05 classification is used for “Research Institutes & Public Policy Analysis denotes organizations whose primary purpose is to conduct research and/or public policy research within the major group area” (IRS NTEE table).

⁴ November 13, 2014 for each of three regions that cover domestic organizations, resulting in an initial data file of 1.49 million records

The survey, which was developed with input from subject matter experts, was comprised of 16 multiple choice, two yes/no, and two open-ended questions. After testing for ease of use and clarity, it was distributed along with an introductory email.⁵ I sent two reminder emails and made personal phone calls to encourage participation. There were 174 responses for a 22.3 percent response rate (174 out of 778). Twelve surveys were incomplete. When survey responses were received, I used the contact name to match the survey responses to the appropriate organization's administrative record.

Measures

The fundraising practices were measured on a scale designed to fit the real-life application of each practice. The use of conditional ask-strings—the practice of soliciting donors with suggested giving levels based on previous giving⁶ -- is measured by frequency. To be successful, organizations need to customize solicitations and use this practice consistently, so the survey asked whether they used conditional ask-strings in all (100 percent), most (50 to 99 percent), some (25 to 49 percent), or a few (1 to 25 percent) solicitations, or not at all. Similarly, for second gift asks, respondents were asked how many times a year they solicited their donors: four or more times a year, two to three, once, some once and others more than once, or not at all.

Matching campaigns and sustainer programs were measured for emphasis: low, moderate, heavy, or no program at all. In matching campaigns, an organization announces a special effort to help match dollars from a challenge. It's usually a time-limited challenge with a specific goal, but it requires marketing and promotion, so the survey asked how much emphasis the campaign received. Likewise, sustainer campaigns, which promote continuous automatic

⁵ The survey was distributed in batches starting Jan. 20 and finishing Jan. 27, 2015.

⁶ For example, if the donor's previous gift was \$80, the ask-string would appear as: \$80, \$120, \$160, \$200. The formula can be altered.

giving every month or quarter, depend on selling the initial sign up and the degree of emphasis placed on the program is important.

Giving clubs—also called societies or associations— set giving levels as an incentive to increase giving and organizations need a critical mass of donors willing to be listed for publication. Some organizations are more strategic about promoting giving clubs and using these lists during donor cultivation and solicitation, either explicitly (please consider joining at the platinum level) or a subtly, through distribution of the list at a board meeting. Survey participants were asked whether they had a giving club, and if so, whether they used it for recognition only or for recognition and fundraising.

Procedures

Early in the process, I gathered input on the research design through conference calls and interviews with fundraising professionals and consultants. I created the study population using the four parameters described above. Since advocacy organizations are present in every NTEE category, I examined 500 nonprofit records on the Urban Institute's National Charitable Statistics database, noting the NTEE codes assigned to organizations known to be involved in advocacy⁷ and then applied those codes to the IRS records. Initially, 18,640 organizations met the defined criteria. The pool was then narrowed to 778 organizations, and those organizations received the online survey.

I developed a call script mimicking the introductory email and called all contacts that had phone numbers. Most of the calls (318 out of 374) ended in voice mail, and I left a message. Only seven percent (56) resulted in direct contact. I encountered several questions from people

⁷ I excluded the following NTEE for G - Voluntary Health Associations & Medical Disciplines; H - Medical Research; M - Public Safety Awareness; N - Recreation & Sports; T - Philanthropy; U - Science and Technology; V - Social Science; X - Religion related; Y - Mutual and Membership Benefit.

who wanted to know about the purpose of the study and how the results would be used.⁸ On four occasions, the contact said they didn't think they fit the criteria, or were too busy, so they were not sent the survey. The remainder (404 out of 778) did not have phone numbers or did not answer. Survey responses were paired with IRS administrative records for a final study sample of 162 organizations.

Analysis

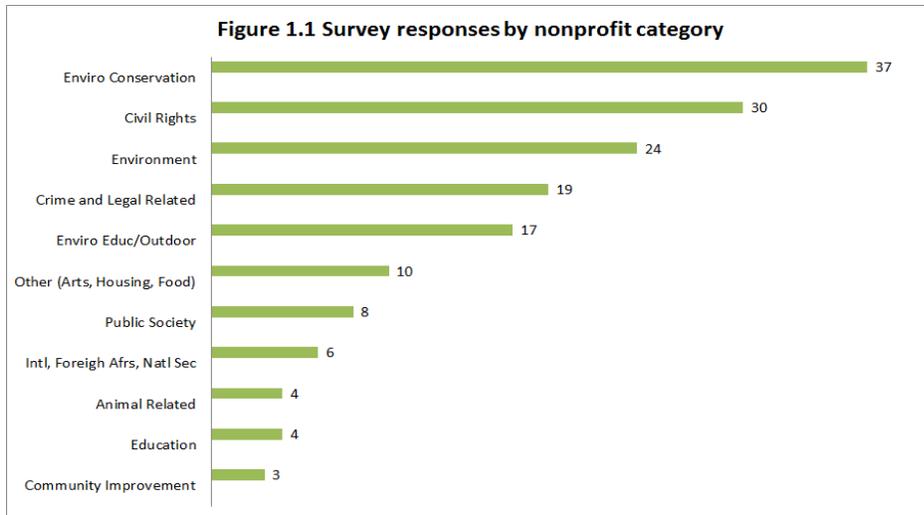
SPSS was used to conduct the statistical analysis. I ran descriptive statistics for the five fundraising practices variables and revenue. This showed the mean, standard deviation, and range for each variable. I ran scatterplots to look for outliers and histograms to check for central tendency. Although the variables did not meet standards for normality, I opted not to transform them or eliminate outliers because I wanted to retain as much data as possible. Once I was comfortable with the data, I ran five separate ANOVA, one for each independent variable, to look for differences in revenue.

Results

In the final sample of N = 162 organizations, the average revenue is \$2 million; 77 percent have fewer than 1,000 donors. Only 17 percent count on individual donors to make up 50 percent or more of their revenue. Two-thirds have staff dedicated to development. As shown in Figure 1, environmental organizations make up the largest category with civil rights and legal related organizations second and third.

Figure 1 Survey Responses by Nonprofit Category

⁸ The responses were that the purpose of the survey is to identify fundraising practices, results would be disseminated to all respondents and nonprofit community through emails trainings and conferences to help nonprofits with fundraising, and organizations were selected based on NTEE code and size of organization.



There is a strong association between conditional ask-strings and revenue. Figure 2 shows that organizations using this practice in all solicitations have revenue more than twice as high as the mean (\$4.96 million versus \$2.01 million) and much greater than all other groups. Surprisingly, organizations that indicate using conditional ask-strings in a few solicitations show higher revenue than those using it in some or most solicitations. Similarly, with second gift asks, more was not necessarily better. Organizations that solicit some donors once and others more than once outperform those that solicit all of their donors four times or more, possibly indicating a targeted use of these practices that intentionally suppresses certain donors, such as those who give substantial annual gifts.

Figure 2 Conditional Ask-strings and Revenue

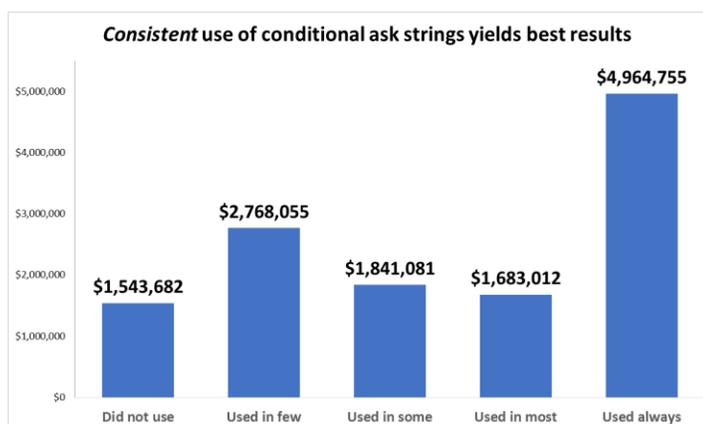
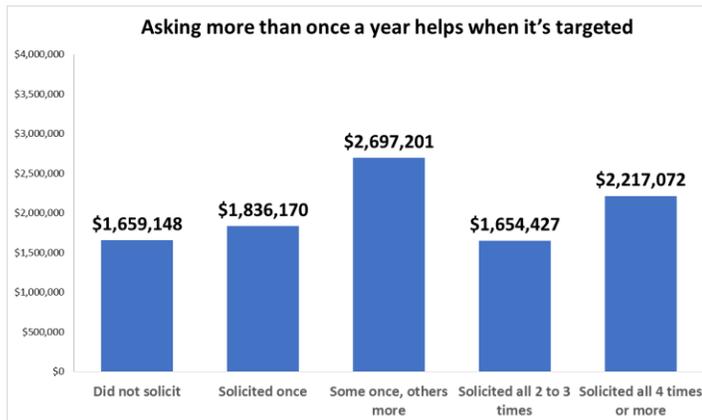


Figure 3 Second Gift Asks and Revenue



Matching campaigns and sustainer programs both behave linearly against the revenue variable and reveal consistent results. As demonstrated in Figure 4 and 5, nonprofits with high practice devotion have greater revenue than those with low practice devotion. Nonprofits that place a heavy emphasis on matching campaigns have the highest revenue compared to all other groups. Organizations that place low emphasis have nearly the same revenue as those that do not use the practice at all. Similarly, nonprofits that placed heavy to moderate emphasis on sustainer programs have 52 percent higher revenue than those reporting low emphasis or no sustainer program at all.

Figure 4 Matching Campaigns and Revenue

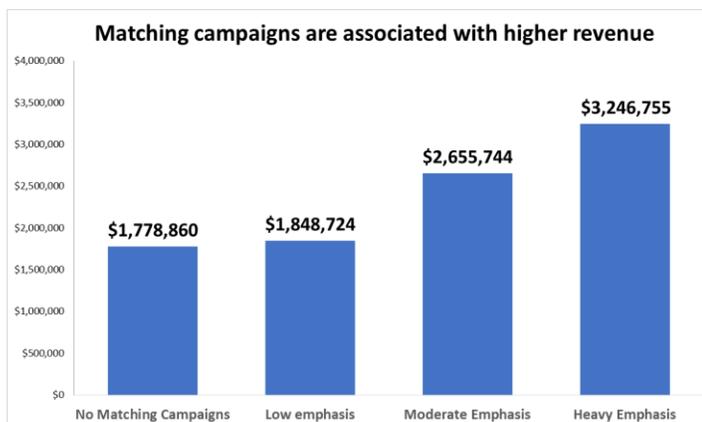
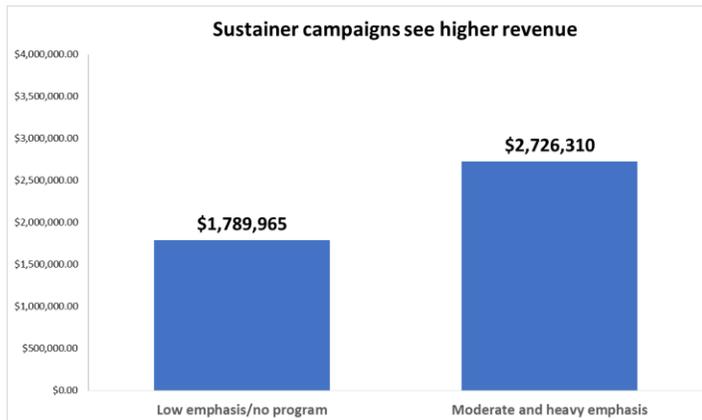
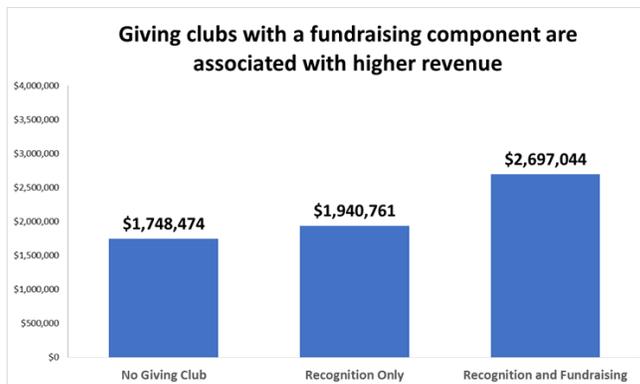


Figure 5 Sustainer Programs and Revenue



Giving clubs also showed a positive association with revenue, but only when organizations used them for both recognition and fundraising. Groups that had no club or used the club for recognition only had lower revenue.

Figure 6 Giving Clubs and Revenue



General Discussion

The current study makes a contribution toward understanding the difference in revenue between nonprofits that make strategic use of five popular fundraising practices and those that use the practices less strategically or don't use them at all. Among the many challenges facing nonprofits is the need to find the right approach to fundraising. The multiplicity of factors

outside a fundraiser's control often obscures the link between a good organization and positive fundraising results. Moreover, nonprofits are often buffeted by the latest trend or gimmick. In this paper, I report on five popular fundraising practices in 162 small to mid-size advocacy organizations. The findings suggest the strategic use of these five popular practices is associated with higher revenue.

Although the importance of fundraising effectiveness has long been recognized, there has been limited research on advocacy organizations. This analysis begins to fill in the missing piece of the puzzle and suggests that development directors in advocacy organizations consider implementing these practices within their organizations.

Limitations

The following limitations of the current study are worth noting. First, given the non-experimental nature of the study design, third-variable confounds pose a potential threat to the internal validity of the conclusions. The available data made it possible to measure group differences based on revenue and usage level of the five fundraising practices, but do not measure all practices or account for many factors that affect revenue. Second, the survey, which gathered information on 2013 fundraising activities, was administered in early 2015, which raises the risk of memory decay. While this was necessary in order to have reliable administrative records, it may have caused respondents to conflate practices from multiple years. Third, revenue is an imperfect dependent variable which may include grants, government funding, and other revenue that has no direct connection to the five fundraising practices. Accounting practices that count large bequests and multi-year grants in a single year distort the revenue line and make analyzing nonprofits revenue particularly difficult. Fourth, it's important to note that respondents who had direct contact during phone calls and had the opportunity to ask

questions may have been biased in responding to the survey, although every attempt was made to limit the amount of additional information shared. Finally, the external validity of the study's findings is limited by the nature of the sample and may not generalize to large organizations or groups that provide direct service.

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