The Impact of Operations vs. Marketing Elements on Humanitarians’ Donation Income: An Empirical Study

The rapid growth of the nonprofit sector is considered beneficial for the society but pressurizes competition among nonprofits, which affects their marketing investments (Rose-Ackerman, 1982). Although marketing via fundraising is known as the predominant strategy to raise nonprofits’ donation income, it diverts funds from the core programs and operations, generates a negative impact on price of giving, and thereby has an indirect negative impact on donations (Bose, 2015; Thornton, 2006). Consequently, nonprofits require cultivating strategic plans to attract resources and allocate them effectively among functions such as marketing and operations (List, 2011).

The existing literature presents an ongoing debate regarding the impact of a wide range of variables on nonprofits’ donation income. Yet, the impact of these variables on donations are often analyzed in isolation and irrespective of differences between donation sources, resulting in inconsistent conclusions and further ambiguity for nonprofit managers. The main goal of this research is to address two questions. First, what operations- and marketing-related factors, at an aggregated level, influence a nonprofit’s donation income? Second, are these effects universal regardless of the organization’s size and the source of donation? Answering these questions could provide insights about how nonprofits could adapt action plans that systematically increase their market share while delivering their mandate.

To evaluate a nonprofit’s operational performance, we consider its program spending ratio, which is a typical financial measure in nonprofit sector to evaluate a nonprofit’s performance (Eftekhar et al., 2016). In addition to program spending, the organization’s transparency is a critical factor that provides information about the quality of its operations (Wardell III, 2009).
Moreover, donors have different ideological interests and priorities that guide them to contribute in certain programs. Therefore, diversity of programs offered by a nonprofits might motivate donors to give (Kinsbergen et al., 2013). To evaluate a nonprofit’s marketing effort, we consider its fundraising investment. Nevertheless, in addition to fundraising, a nonprofit’s fame and media exposure are considered powerful tools to attract donors (Eftekhar et al., 2016). Moreover, marketing efforts that give donors the option to earmark their donations increase their willingness to give (Nunnenkamp et al., 2012).

We examine the effects of program spending and fundraising efforts, as the main operations- and marketing-related drivers, on public donations and government grants. Furthermore, we show how transparency and program diversity moderate the impact of operational performance on donation income, and how media exposure and earmarking moderate the impact of fundraising on donations. We also investigate whether there is a unique action plan to attract all donation resources, or nonprofits need to adjust their actions depending on the target donation source. To address these questions, we use an unbalanced panel data set containing financial information, transparency measures and media exposure of 120 Humanitarian Organizations (HOs) over the time period 2000-2014 and apply a mixed effects model to analyze it. We focus on the humanitarian sector for better comparability and to eliminate the sector effect.

Results indicate that donations are mainly driven by HOs’ operations. Moreover, in order to maximize their donation income, HOs need to tailor their strategies based on the size of the organization, and their source of donation. Yet, transparency is a critical factor, increasing donations and grants given to well-performing HOs. Marketing efforts help HOs increase their income from public donations, but do not have a significant impact on government grants. Media, however, has different effects on public donations and government grants. While we observe a
substitutive relationship between fundraising efforts and media exposure on public donations, media could increase the impact of fundraising on government grants.

The existing literature studies nonprofits from different perspectives such as economics, public policy, donor behavior, and fundraising practices. We contribute to this literature by taking a managerial perspective to identify the impacts of HOs’ operations and marketing efforts on their donation income, at an aggregated level. Moreover, to the best of our knowledge, empirical studies that investigate factors impacting nonprofits’ donation income are either limited to one source of donation or only consider a few separate factors, mostly focused on operations efficiency and financial indicators. We contribute to this literature by taking a rather holistic view of these factors and indicating the importance of donation source in policies aiming to increase donation income.

References
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