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ABSTRACT

The use of directed giving - allowing donors to target their gifts to specific organizations or functions - is pervasive in fundraising, yet little is known about its effectiveness. We conduct a field experiment at a public university in which prospective donors are presented with either an opportunity to donate to the unrestricted Annual Fund, or an opportunity of donating to the Annual Fund and directing some or all of their donation towards the academic college from which they graduated. While there is no effect on the probability of giving, donations are significantly larger when there is the option of directing. However, the value of the option does not come directly from use, as very few donors choose to direct their gift.

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1 Introduction

The use of directed giving - allowing donors to target their gifts to specific organizations or functions - is pervasive in fundraising. As early as 1994, United Way responded to a drop in contribution levels by introducing donor choice, for the first time allowing donors to select the organization to receive their donation (Barman, 2002). Targeting proved popular, and grew to 18.4% of donations by 1999. United Way's 2012 annual report notes that 47% of assets are unrestricted, reflecting the overall pattern of giving nationwide.¹ However, surprisingly little is known about its effectiveness for increasing donations, nor the potential costs and other ramifications. In particular, if a large proportion of giving is restricted in its use, charities' flexibility in allocating their resources would be reduced.²

While directed giving clearly plays an important role in fundraising, there are no previous controlled studies designed to directly assess its impact in the field. We conduct a field experiment in conjunction with the Association of Former Students (AFS) at Texas A&M University in which prospective donors can either donate to the Annual Fund (the standard way in which AFS raises money), or have the option of directing some or all of their gift to an Academic Fund benefiting the academic college housing the department from which they graduated. We randomly assign former students to one of these two treatments and find no effect on the probability of giving, yet much larger donations from those who did give. Surprisingly, very few donors choose to direct any part of their gift. Altogether, our results suggest that donors who would have given regardless respond to being offered a choice by giving more, but do not take up the option; at least in our context, concerns about earmarking are unfounded.

Several experimental studies explore topics related to directed giving. Li et al. (2013) provide the first lab-experimental evidence (to our knowledge) measuring the

¹The United Way national organization does not report donations by restricted status. The regional organizations vary considerably, but average around half of giving as unrestricted.

²No less an authority than the online humor magazine *Cracked* discussed this problem in an article entitled "5 Popular Forms of Charity (That Aren't Helping)," giving a number of examples in which earmarked donations caused a "massive imbalance in funding that leads to some serious bureaucratic absurdities." (Hill, 2012)

impact of targeted giving. In a “real charity” lab experiment, where subjects make donations from their earnings to charitable organizations, they show that targeting has a positive impact on donations. The study compares directed giving to two specific causes – disaster relief and cancer research – with donations to the United Way general fund. A similar comparison is made for government organizations, with the “Gifts to the United States” fund, which feeds into federal revenue, as the general fund. They find that targeting specific causes more than doubles the likelihood of giving and the size of contributions, relative to the general funds. The impact of targeting is significantly greater for government organizations, most likely due to the broader portfolio of functions under the government umbrella.

Two additional types of experimental studies provide insight into the potential value of directed giving. Small and Loewenstein (2003) use lab and field experiments to explore the “identifiable victim” phenomenon: people will often give substantially more to an identifiable than a statistical victim. For example, in 1987, one child, “Baby Jessica,” became a media sensation when she fell into a well near her home in Texas, and she received over \$700,000 in donations from the public. They find that a recipient who has already been selected from a list of possible targets receives larger donations than one who has not yet been selected from the list: the difference was 62% in a lab experiment and 26% in a field experiment. This suggests that allowing donors to target a specific victim may substantially increase giving. It is this impulse that is exploited in fundraising campaigns such as World Vision, Compassion International, or Children International, which ask donors to sponsor a specific child through regular donations.

A second type of study examines “paternalistic” donor restrictions. For example, a donor might be willing to contribute more if they can control how a recipient is allowed to spend the money. Batista et al. (2014) report the result of lab-in-the-field experiments in Tanzania where the recipient is the closest person to the donor outside their family. They show that donors are willing to give about 14% more when they have the option to give goods rather than in cash. The magnitude of the effect is larger than other experimental manipulations such as the price of giving or the endowment to the donors. In a related study, Jones (2014) shows that even when

such paternalistic restrictions are costly, about 60 percent of subjects are willing to pay to restrict the use of a donation so that it cannot be spent on cigarettes, alcohol or drugs. These studies illustrate the responsiveness of giving when donors have the ability to target the use of the funds.

2 Experimental Design

In order to isolate the impact of directed giving, we designed a natural field experiment centered around creating exogenous variation in the option to direct a donor's gift. The experimental design consisted of two subject groups: standard (Annual Fund Only) and directed (Annual or Academic Funds). Both groups received an e-mail describing the values of Texas A&M University and asking for support in the form of a donation. The e-mails received are identical, including the subject line, with one exception: the directed group was also provided an option of directing a gift to the donor's academic college. The control group did not receive any option, as is standard for the AFS Annual Fund. All other aspects of the request for a donation were the same as AFS's normal solicitations.

Subjects were contacted via nearly identical e-mails, with the only difference in solicitation consisting of one additional sentence for the directed group. For the control group, the e-mail appeal only gave the Annual Fund as the possible recipient: "Your gift to The Association of Former Students' Annual Fund supports scholarships, academic excellence, and student organizations across the university." The e-mail to the directed group included a sentence presenting an option of directing a donation (addition in italics): "Your gift to The Association of Former Students' Annual Fund supports scholarships, academic excellence, and student organizations across the university. *You can also choose to direct some or all of your gift specifically to support programs at your academic college.*"

Each e-mail contained a hyperlink to a web page for the donor to make a donation. Two web pages were designed, one for each group, in order to provide the directed group an entry option for donations to the academic college from which the donor graduated. The option to donate to the academic college was in addition to the

standard entry option for the Annual Fund which was included in both the directed and control web pages.³

The control and directed groups were created from a list of donors that had given in 2012, but had not yet given in 2013. Subjects were randomly assigned, stratifying the sample on college, year of graduation and gender, into two groups, with 5,303 control recipients and 5,302 directed recipients. Table 1 shows p-values for balance between the two samples; it is clear that the randomization was successful. The two lists of potential donors were provided to the AFS to administer the appeal. The AFS handled the lists separately to ensure the correct e-mail body was sent but otherwise the appeal operated in the standard fashion.⁴

The first round of e-mails was sent on December 19, 2013. A second e-mail for non-respondents was sent on December 27, 2013. Donations were received through the two websites administered by the AFS as well as by check. Donations stopped being recorded for our data on December 31, 2013. The results which follow utilize all donations received by the control and directed groups during this time period. The randomization in the sample permits the interpretation that the experimental trigger caused donations through any channel.

3 Results

There is little difference in the probability of giving across the conditions; 442 donors (8.3%) gave in the control (Annual Fund Only) treatment, while 454 donors (8.6%) gave in the directed (Annual and Academic Funds) treatment. Figure 1 shows the distribution of donations, conditional on making a gift, by treatment; it is evident that there are somewhat fewer small gifts and somewhat more very large gifts when donors are given a choice. This is borne out by the comparison of means in Table 2, in which we show that while there is no difference in the giving rate between the

³The full e-mails for the control and directed groups, as well as the web pages used to facilitate donations, can be found in the Appendix.

⁴Five subjects were mistakenly allocated to the incorrect group; we remove these individuals from the sample, leaving 5,300 subjects in each treatment. Including them does not affect the results.

two treatments, the average gift is substantially larger in the choice condition. The unconditional average gift size is \$7.61 larger when donors can target their gift ($p = 0.01$). Since the giving rates do not differ, it is unsurprising that this pattern carries over to the gift size conditional on giving, which is \$82.33 larger in the choice condition. A Kruskal-Wallis test shows that the distributions of the two groups are different at $p = 0.092$.

Due to the presence of a number of large gifts in the choice condition, we examine the results after Winsorizing the gifts conditional on giving at 1% and 5%. That is, we set the top 1% (or 5%) of the conditional distribution of donations equal to the 99th (or 95th) percentile; thus, the observations are still counted in the statistics but have a less-outsized influence. The results are unchanged: the differences for both 1% and 5% Winsorizing are still statistically significant; we therefore conclude that our results are not entirely driven by outliers, though much of the impact of choice seems to be driven by a greater proportion of very large gifts.

Given that our experiment focuses on the effects of choice, we next turn to whether donors choose to direct their gifts when the choice is available. Strangely, despite clearly giving greater amounts in response to the *availability* of choice, few donors choose to actually *utilize* that choice. Only 11 donors in the choice condition made any gift to the Academic Fund, just 2.4% of respondents.⁵ Among these 11 individuals, 56.0% of dollars were directed to the Academic Fund, with a median of 50%; only two donors chose to direct the whole of their gift. These donors gave \$209 more than their non-directing counterparts in the choice condition, but the sample is so small that this difference is significant only at $p = 0.22$.

4 Conclusion

Taken together, our results suggest that donors who were planning on giving regardless have a preference for being offered a choice; the choice condition has no impact on the probability of making a gift, but a large impact on the amount given condi-

⁵Two donors in the Annual Fund group asked to direct their gifts; one donor directed the entirety of the gift while the other directed one-third.

tional on making a gift. However, these donors do not, in general, avail themselves of the option to give. This has implications for charities considering whether to allow donors to direct their gifts. In all, the Association of Former Students raised approximately \$40,000 more by allowing for choice than it would have otherwise, with only about 2% of the \$148,914 raised in the choice condition being restricted to the Academic Fund. It appears that allowing for choice increases donations without limiting charities' flexibility in allocating donations.

Future work will allow for a wider set of choices, including short or long menus that do or do not include the unrestricted Annual Fund as an option. This will allow for further investigation of both the hypothesized "paradox of choice" in the context of charitable giving, as well as whether donors merely value the appearance of choice.

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5 Tables and Figures

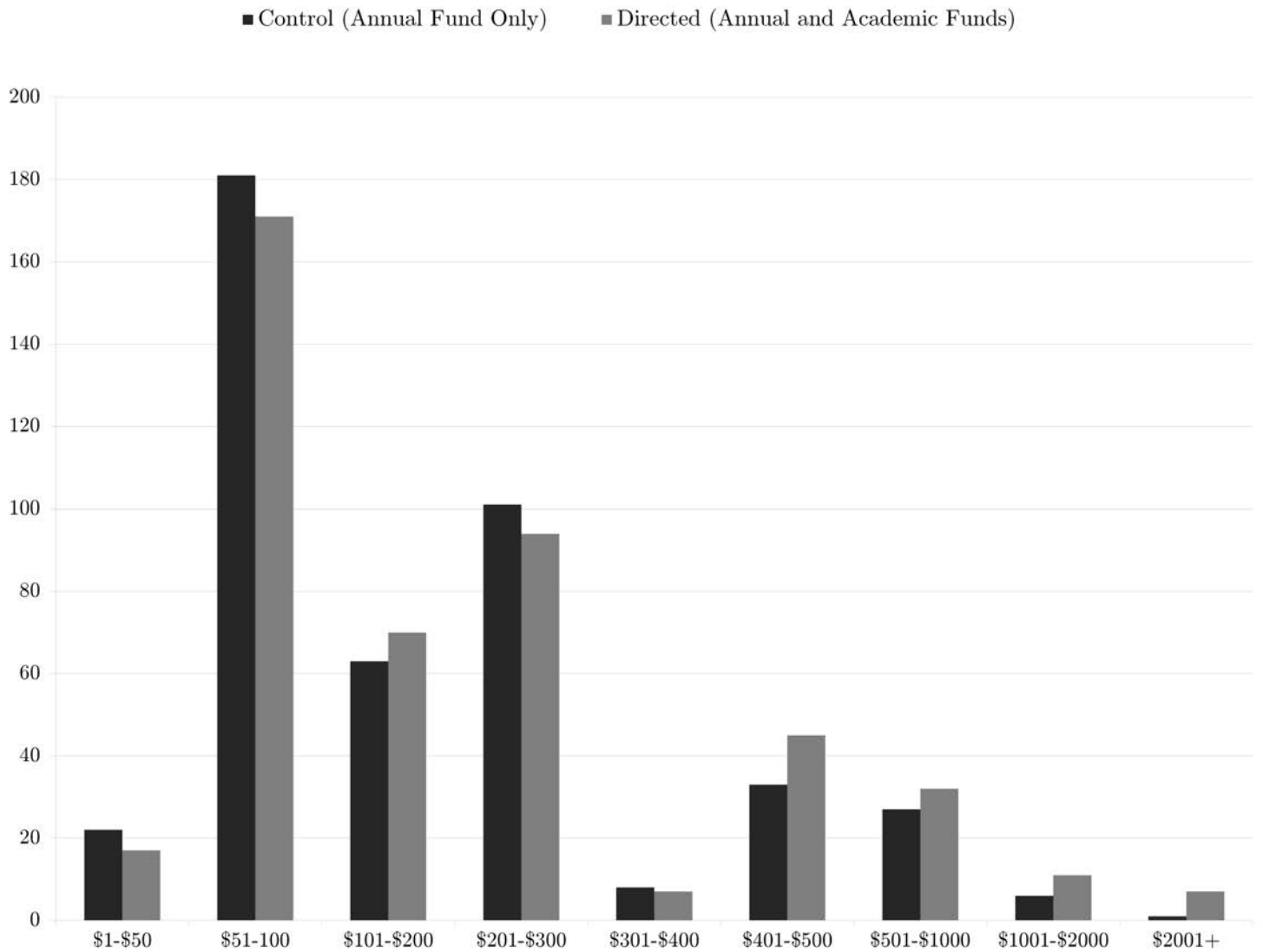


Figure 1: Number of Gifts by Size, Conditional on Giving

Table 1: Summary Statistics

| | Control Annual Fund Only | Directed Annual and Academic Funds | Difference p-value |
|-----------------------------------|-----------------------------|---------------------------------------|-----------------------|
| Male | 0.625 (0.484) | 0.625 (0.484) | 1.000 |
| Numbers of years since graduation | 22.03 (13.43) | 22.01 (13.42) | 0.950 |
| Texas | 0.816 (0.387) | 0.815 (0.388) | 0.873 |
| <i>College</i> | | | |
| Agriculture & Life Sciences | 0.185 (0.388) | 0.184 (0.388) | 0.980 |
| Architecture | 0.046 (0.21) | 0.047 (0.211) | 0.963 |
| Business Administration | 0.189 (0.392) | 0.189 (0.392) | 0.980 |
| Education | 0.092 (0.289) | 0.092 (0.289) | 1.000 |
| Engineering | 0.244 (0.43) | 0.244 (0.43) | 1.000 |
| Bush School | 0.001 (0.027) | 0.001 (0.034) | 0.527 |
| Geosciences | 0.018 (0.134) | 0.018 (0.133) | 0.942 |
| Liberal Arts | 0.144 (0.351) | 0.144 (0.351) | 0.978 |
| Science | 0.043 (0.202) | 0.043 (0.202) | 0.962 |
| Veterinary Medicine | 0.038 (0.191) | 0.038 (0.191) | 1.000 |
| Observation | 5300 | 5300 | 10600 |

Note 1: Mean and standard deviations (in parentheses) in Column 1 and 2.

Note 2: p-values for difference-in-means in Column 3 9

Table 2: Results

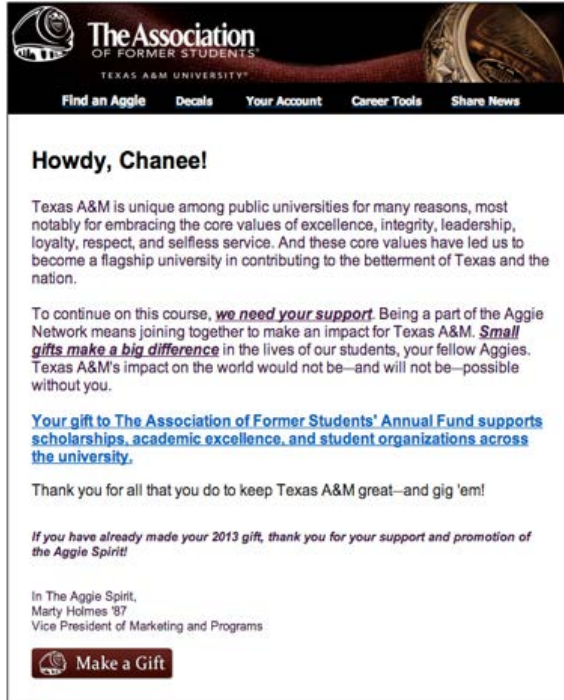
| | Control Annual Fund Only | Directed Annual and Academic Funds | Difference |
|--------------------------------|-----------------------------|---------------------------------------|----------------------|
| <i>Unconditional on Giving</i> | | | |
| Giving rate | 0.083 (0.277) | 0.086 (0.280) | -0.002 (0.005) |
| Dollars given | 20.49 (107.33) | 28.10 (186.00) | -7.61*** (2.95) |
| Observations | 5300 | 5300 | 10600 |
| <i>Conditional on Giving</i> | | | |
| Dollars given | 245.67 (288.06) | 328.01 (553.25) | -82.33*** (29.59) |
| Winsorized (1%) | 243.41 (269.72) | 300.58 (377.89) | -57.17*** (21.99) |
| Winsorized (5%) | 233.90 (222.71) | 269.21 (260.24) | -35.32** (16.20) |
| Observations | 442 | 454 | 896 |

Note 1: Mean and Standard deviations (in parentheses) in Column 1 and 2

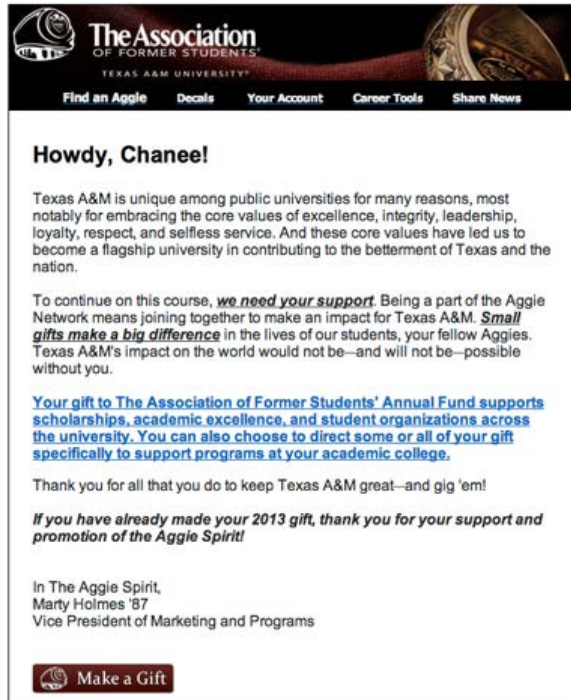
Note 2: Difference and standard errors (in parentheses) in Column 3. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix: Body of E-mails

(a) Control E-mail



(b) Directed E-mail



E-mails to groups

Appendix: Web Pages

The web pages for the electronic donations from the hyperlink in the e-mail had some slight differences made by AFS to make the webpage more “readable”: (1) the order of entering the donors name and the gift amount was switched, (2) the control group was giving the option either to make a gift in someone else’s name or to donate for missing years. The analysis is unchanged when those donations are excluded.

(a) Control Donation Web Page

Your loyal support is one of the things that makes Texas A&M such a special place to be. When you make a gift to The Association of Former Students you are supporting student scholarships, student organizations, Aggie traditions and so much more. So make your gift today so that your generosity of spirit will continue to set an example for fellow Aggies.

Gift Amount Login to pre-populate form, or create your account today

\$

Would you like to make this a recurring gift?

This is a payment on a pledge.

Employer Gift Matching
Find your company's matching gift ratio or multiply the impact of your gift! Then, type their name and matching ratio below. The lookup includes instructions for submitting matching gift paperwork.

Company

Matching Ratio : (i.e. 1:1 or 0.5:1)

Your Name

First Name * Last Name * Class Year

Which best describes you?

Graduated in the last 36 months (50% off your Century Club membership)

Address this is where we will mail your receipt, decals, year bars, etc.

Street *

City *

State

Country

Zip *

Email *

Phone * Extension Phone Country

Giving Options

Add a Joint Donor + add this

Make This Gift in Someone Else's Name + add this

Include Payment for Missing Year Bars
Is your Century Club Plaque missing something? Include a gift for previous years to get that missing year bar!
Minimum gift for each year bar must be at least **Bronze** level. [view levels](#)
+ add year

Payment Method

VISA MasterCard Discover American Express

PayPal

Credit Card Number

Security Code Last 3-digits on back of card. For AmEx, 4 digits on the front of your card.

Expiration Date / (2014)

Comments / Special Instruction

(b) Directed Donation Web Page

Your loyal support is one of the things that makes Texas A&M such a special place to be. Your gift supports student scholarships, student organizations, Aggie traditions and so much more. You can choose to direct your gift to support specifically your academic college, or to the Annual Fund, which supports multiple priorities across the university. So make your gift today so that your generosity of spirit will continue to set an example for fellow Aggies.

Your Name

First Name * Last Name * Class Year

Which best describes you?

Graduated in the last 36 months (50% off your Century Club membership)

Gift Amount Login to pre-populate form, or create your account today

Annual Fund Gift Amount \$ Your gift to The Association of Former Students' Annual Fund supports scholarships, academic excellence, and student organizations across the university.

Amount to Your College \$ Direct a gift specifically to support programs at your academic college.

Would you like to make this a recurring gift?

This is a payment on a pledge.

Gift Matching

Employer Gift Matching
Find your company's matching gift ratio and multiply the impact of your gift! Then, type their name and matching ratio below. The lookup includes instructions for submitting matching gift paperwork.

Company

Matching Ratio : (i.e. 1:1 or 0.5:1)

Address this is where we will mail your receipt, decals, year bars, etc.

Street *

City *

State

Country

Zip *

Email *

Phone * Extension Phone Country

Giving Options

Add a Joint Donor + add this

Payment Method

VISA MasterCard Discover American Express

PayPal

Credit Card Number

Security Code Last 3-digits on back of card. For AmEx, 4 digits on the front of your card.

Expiration Date / (2014)

Comments / Special Instruction