

The Benefits of Accreditation for Fundraising Nonprofits

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Abstract

How can fundraising organizations signal trustworthiness to prospective donors? One way to do this is by conforming to standards of excellence and allow a trusted, independent agency to monitor the organization with regard to these standards. This paper empirically investigates whether (1) awareness of standards of excellence among donors increases donations by households; (2) fundraising organizations that abide by standards of excellence attract more donations than organizations that do not. Using a panel study tracking changes in giving in the Netherlands between 1994 and 2004 evidence is obtained for both effects.

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The Trust Problem in Philanthropy

Nonprofit organizations depend on voluntary contributions from donors. When nonprofit organizations solicit contributions from donors, donors face the decision whether nonprofit organizations are worthy of support. The effectiveness and efficiency of the services provided by nonprofit organizations are important factors in the donor's decision making process (Bekkers, 2004; Arumi, Wooden and Johnson, 2005). However, because nonprofit organizations often provide services of which the quality is difficult to observe and evaluate, donors face a high level of uncertainty about whether a nonprofit organization is effective and efficient. In the absence of accurate information about an organization's output, donors have to rely on their personal impressions of the trustworthiness of fundraising organizations. This is the trust problem in philanthropy.

The trust problem in philanthropy is similar to the trust problem in buying a used car. A used car may look good but actually be in a bad condition. When deciding about donations to fundraising organizations or buying a used car consumers try to avoid ending up with what Akerlof (1970) called 'lemons': bad products that sellers may be able to present as good ones. When a seller of a used car is able to convince a buyer that the car is alright, the transaction will take place. In technical terms, there is asymmetric information in markets for lemons: sellers have more information about the product than buyers, information they should strategically withhold when trying to sell the product.

The trust problem in philanthropy is often more severe than the trust problem in economic transactions that involve buying a product or service for one's own consumption. In many cases, donors are not recipients of services provided by nonprofit organizations, and donors and recipients of nonprofit organizations do not know each other personally. International relief agencies or environmental and wild life organizations are good examples of nonprofit organizations that provide services primarily to non-donors. In addition, they also work in distant areas. For decisions about donations to such organizations, the problem of uncertainty is most pressing. How can donors decide whether their contribution makes a difference? How can they know where their contribution is used most effectively? For donors, reduction of uncertainty requires information about the nonprofit's mission, activities, overhead and fundraising costs. With this information, donors may get an impression of an organization's efficiency.

Two problems with information about fundraising organizations reduce the likelihood that donors put their charitable impulse into action: costs and credibility. The first problem is that for many donors, the search costs involved in the acquisition of such information are too high. In the US, where information about fundraising organizations is publicly available at no cost through the Internet (at www.guidestar.org) only a fraction of donors actively search for this information and use it (Arumi, Wooden and Johnson, 2005). Guidestar is not used by the majority of donors because gathering and interpreting the information is costly. They have to spend time on the Internet getting the data, and they have to interpret and evaluate the data. This task is a difficult one that requires cognitive resources and time. Donors have to incur costs to 'give wisely'.

The second problem is that of credibility. How can donors be sure that the information they receive from fundraising organizations is accurate? The problem of credibility is a second reason why Guidestar is not often used. Guidestar is based on data provided by the nonprofit organizations themselves through the Form 990 that 501(c) organizations provide to the IRS in order to get tax exempt status. Because the IRS has very little personnel to check the information provided, donors must rely on their personal impression about the organization. They cannot be sure that the data are accurate (Bowman and Bies, 2005).

The Fundraising Problem

From the perspective of nonprofit organizations that are trying to raise funds, the credibility problem emerges in a different light. For individual nonprofit organizations, the problem is how they can convince donors of their trustworthiness. Svítková and Ortmann (2005) call this the 'fundraising problem'. If fundraising organizations can show to donors that they provide services of higher quality and that they are a more efficient organization, they would get a competitive advantage in the market. However, information on the quality of services provided and the efficiency of the organization from nonprofit organizations themselves may look suspect in the eyes of donors, because nonprofit organizations obviously have a stake in getting more contributions from donors. Credibility of information is the key problem of 'self-regulation' (Bowman and Bies, 2005). The credibility problem is solved to some extent by having an independent party check the information provided by fundraising organizations. However, even an 'independent' evaluation by accountants does not guarantee that financial information about fundraising organizations is flawless. A large study on fundraising and organization costs (Nonprofit Overhead Cost Project, 2004) found that even fundraising organizations that had an accountant review their financial information made mistakes in their Form 990. Specifically, organizations book fundraising appeals as program expenses when the appeals contain some educational material (Hager, 2003). While this practice may be legitimate in some cases, it can also be misused. Another problem is that a non-negligible number of fundraising organizations report zero fundraising costs, which is likely to be inaccurate (Nonprofit Overhead Cost Project, 2004).

Nonprofit organizations not only face their own individual problem of credibility, but also face a collective problem: how to keep the public's trust in the nonprofit sector as a whole. Donors shy away from nonprofit organizations that in their minds 'waste resources', for instance by paying high salaries to managers or spending relatively high amounts of income on fundraising costs (Bowman, 2006). The general public does not like high costs for fundraising and overhead (Arumi, Wooden and Johnson, 2005). The public also desires low salaries for managers of nonprofit organizations. Reports in the media on salaries of an interim manager at Plan Netherlands (earning €30,000 per month) in early 2003 and the medical director of Dutch Heart Association (€170,000 per year) in spring 2004 caused a significant drop in fundraising income for these organizations. Negative information about nonprofit organizations may not only lead the public to reduce voluntary contributions to specific organizations, but also to reduce contributions to nonprofit organizations as a whole. Here the saying 'one bad apple spoils the whole basket' applies.

Accreditation as a solution to the trust problem and the fundraising problem

Summing up: Donors want nonprofit organizations to work effectively and at low costs, but (1) Donors do not care enough about the output of nonprofit organizations in order to make the acquisition of information about worth while; (2) Donors do not even care enough to make the interpretation of information provided at no cost worth while; (3) Donors may doubt the accuracy of information provided by nonprofit organizations themselves. The fundraising problem for fundraising organizations and the trust problem for donors can be solved if trustworthy information about fundraising organizations would be available at no cost to donors.

This paper reports the empirical effects of one potential solution to the fundraising problem: an accreditation system that provides evaluations of fundraising nonprofit organizations with regard to a set of minimal standards that is freely available to donors in the Netherlands (described earlier by Bekkers, 2003). I study the effect of the accreditation system from two sides: from perspective of donors, using data on the relationship between awareness of the accreditation system and donations by households to charitable

organizations, and from the perspective of fundraising organizations, using longitudinal panel data on fundraising income of fundraising organizations before and after the introduction of the accreditation seal.

The remainder of this paper is organized as follows. First, I will put forward the theoretical arguments on why the accreditation system works, and present hypotheses on which types of donors and fundraising organizations are most strongly affected by accreditation. Then I present study 1, which investigates how learning about the accreditation system affects giving using longitudinal panel data on donations by households. I find a significant effect of learning about accreditation on giving, but not on confidence. Study 2 investigates how the introduction of accreditation has affected fundraising income of fundraising organizations, using longitudinal panel data on fundraising income of nonprofit organizations. I find a significant effect of accreditation on fundraising income. Finally, I discuss limitations and draw conclusions on the effects of accreditation.

Theory

How and why accreditation works

In the Dutch accreditation system, an independent third party, the Central Bureau of Fundraising (CBF), issues a 'seal of approval' to charities that meet a set of standards of excellence.¹ To acquire the right to bear the accreditation seal, fundraising organizations provide extensive information on the organization to the CBF, including a financial statement issued by an external accountant.² Fundraising organizations can apply for the seal when they exist for at least three years. The CBF evaluates the information provided and decides about accreditation. Fundraising organizations pay a fee for the evaluation procedure that consists of a fixed fee and a variable fee depending on the organization's fundraising income. One of the strengths of the system is that the CBF is an independent nonprofit organization. Thus, donors have less reason to doubt the accreditation seal than information provided solely by fundraising organizations.³ Results from a poll survey held in November 2005 among Dutch consumers revealed that 78% had 'sufficient' or more confidence in the CBF, while only 49% said they had at least sufficient confidence in government (WWAV/Zalpha van Berkel, 2005).

The evaluation procedure is paid for entirely by the organization that wishes to be accredited. There is a fixed fee for the first evaluation procedure (€4,360) as well as a variable annual fee for the right to bear the seal, depending on fundraising income (ranging from

¹ Similar systems exist in Switzerland, Germany and Austria. Since its introduction in 1997, the CBF seal has been issued to 255 fundraising organizations. An additional 71 organizations have a 'verklaring van geen bezwaar', which is issued to smaller fundraising organizations that are on their way to meet the same standards. These organizations are not considered as accredited fundraising organizations.

² The accreditation seal is not a trademark, nor is it strongly protected by law. Although the law does not prohibit fundraising organizations that do not abide to the rules of the CBF from bearing the seal, this has not occurred in practice. It is also very unlikely to happen because organizations that would do so are easily detected by the media, the Dutch donor association, the consumer association, or the CBF itself. The only legal arrangement concerning the seal is that the major national charitable lotteries cannot benefit organizations that are not accredited.

³ This does not mean that there is no reason for doubt whatsoever. Ultimately, the CBF relies on reports provided by fundraising organizations themselves because the financial statements approved by external accountants are produced by accountants that are working for these organizations. Accountants would endanger their own reputation by approving financial statements that are grossly incorrect. However, as the Enron case shows, this is not a 100% guarantee against misrepresentations or fraud. Accountants may bend the rules for accounting in cooperation with the fundraising organizations that they work for (Nonprofit Overhead Cost Project, 2004). The financial statements of the accredited organizations likely contain fewer errors than those reviewed in the Nonprofit Overhead Cost Project. For instance, there are no organizations in the Netherlands that report zero fundraising costs.

€3,000 to €7,000). The five yearly re-evaluation procedure costs €2,195. The evaluation procedure not only costs money, but also requires a substantial time investment of the CEO and financial director to answer questions about the organization's activities, management and expenses. This procedure makes it unlikely that organizations that have something to hide will enter and successfully complete the evaluation procedure. Thus, the costs associated with accreditation limit entry of 'bad apples' on the Dutch fundraising market. Consumers can be confident that accredited organizations do not violate the rules of the system.⁴

Another strength of the seal is that it dramatically reduces the information search costs for donors. Generally speaking, seals of approval reduce search costs for consumers (Bennett and McCrohan, 1993). This also holds for decisions about donations to fundraising organizations. Fundraising organizations use the accreditation seal as a signal to donors that their organization is trustworthy, like for-profit firms use certification standards (e.g., ISO9000; Terlaak and King, 2006). When donors receive a fundraising appeal from a nonprofit organization, donors can evaluate the trustworthiness of the organization by looking for the seal. If donors actually rely on the seal in their decisions on charitable contributions, it should give fundraising organizations that use the seal a competitive advantage over charities that do not use the seal: accredited organizations stand out as more trustworthy. The first hypothesis tested below is therefore:

H1. Accreditation increases fundraising income of fundraising nonprofit organizations.

The effect on donors is that the seal legitimates confidence in fundraising organizations among donors, and hence promotes giving. In the absence of an accreditation system, donors have to rely on their casual impressions of the trustworthiness of charities, and they will worry whether their confidence is justified. The public holds overly negative views on fundraising costs made by nonprofit organizations (Sargeant and Kähler, 1999; Bekkers, 2003). Such views depress the amount donated (Bekkers, 2003). When fundraising organizations are monitored by an independent agency, however, donors may correct these views. Independent monitoring provides an external piece of information that legitimates their confidence. A well-designed accreditation system should therefore increase the level of charitable confidence among donors when they learn about the system. Such a system would be an alternative to joining an organization in order to obtain information about its trustworthiness (Bowman, 2004). The hypotheses tested below are:

H2. Individuals who learn about the accreditation system increase donations.

H3. Individuals who learn about the accreditation system gain confidence in fundraising organizations.

H4. Individuals who learn about the accreditation system increase donations because of enhanced confidence.

⁴ This is not to say that accredited organizations make no mistakes, or work a 100% effectively. Accreditation also does not guarantee that the organization abides by desirable standards that are not part of the accreditation system. For instance, the public desires that fundraising managers and CEOs earn lower salaries than persons in comparable for-profit firms. However, there are no limits on salaries in the CBF rules. Thus, fundraising income of accredited organizations like the Dutch Heart Association or Plan Netherlands (the Dutch branch of Plan International) suffered after the salaries of some of their higher employees were published in 2003 and 2004.

Who cares?

There are good reasons to believe that the accreditation system is not equally important to all types of donors. One would expect that large donors are more strongly affected by the accreditation system. Generally speaking, people search for more information in decision making about issues that are more important to them (Lanzetta and Driscoll, 1968). Those who give more to charities will find the trustworthiness of a fundraising organization soliciting contributions more important because they have a larger amount of money at stake. While Tinkelman (1998) found support for the hypothesis that large donors are more responsive to financial information from fundraising organizations in a study of corporate giving, Bowman (2006) did not find support for the hypothesis in a study of households. However, Bowman argues that his finding may have been due to a low sample size. Donors who give large amounts to fundraising organizations will care more about the effectiveness of their contribution than donors who give small amounts. A large donation to an ineffective organization is a larger waste of money than a small donation. The hypothesis tested below is:

H5. The higher the amount donated in previous years, the stronger the increase in donations upon learning about the accreditation system.

Who benefits?

There are good reasons to believe that accreditation is not equally beneficial to all types of fundraising nonprofit organizations. One would expect that accreditation is most beneficial for organizations working beyond the donor's horizon, because they face a stronger asymmetry of information problem. The less visible the qualities of an organization's output are for consumers, the higher the potential benefits of external evaluations (Terlaak and King, 2006). Donors will have more difficulty judging the effectiveness and trustworthiness of fundraising organizations that operate in distant countries, or work for abstract causes like the environment and human rights. Progress in poverty relief and human rights protection is more difficult to see than progress in provision of welfare or arts and culture at the local level. In addition, poverty, ozone layer depletion and human rights violations are likely to continue in spite of the efforts of nonprofit organizations. In such circumstances, donors may feel their support is legitimate when they know the organization is accredited. Local organizations, on the other hand, may not need accreditation because donors are able to get an idea of the effectiveness of the organization themselves by paying a visit to the organization or through information from others who have contacts with the organization. Viewed from the perspective of the fundraising organization one arrives at the same hypothesis. Organizations that operate on a local level are more strongly visible to donors, and subject to control. Local organizations cannot afford mistakes because they would be noticed more easily. Thus:

H6. International fundraising organizations are more strongly affected by accreditation than other organizations.

Study 1. The Effect of Accreditation on Giving by Households

The aims of this study are (1) to estimate the magnitude of the effect of learning about the CBF-seal on donations by households in the Netherlands; and (2) to test the hypothesis that learning about the CBF-seal makes attitudes towards fundraising organizations more positive. It has been assumed that a seal of approval promotes the perception among donors that fundraising organizations are trustworthy, and hence increase giving.

Data and Methods

Sample – To estimate the effects of the accreditation system I use data on philanthropy in the period 2001-2003 from the Giving in the Netherlands Panel Survey (for details see Schuyt and Gouwenberg, 2005). I restrict the analyses to respondents who participated in both waves of the survey (n=1246).⁵ In the first wave, which was collected in May 2002, respondents reported about donations in the calendar year 2001. In the second wave, which was collected two years later, in May 2004, respondents reported about donations in the calendar year 2003. The purpose of the analyses below is to see how giving to charities changes among respondents who learned about the CBF-seal between 2002 and 2004 and among those who did not.

Measures – In both waves, respondents reported whether they ‘knew the CBF-seal for fundraising organizations’ (no/yes). In 2002, 33.7% reported awareness of the CBF-seal; in 2004, this proportion had grown to 42.9%. Of those who were unaware of the existence of the CBF-seal in May 2002 (n=804), 22.8% had learned about it two years later. Most of the analyses will be conducted on the respondents who were unaware of the accreditation system in 2002. Charitable donations were measured in both waves with extensive survey modules (called ‘Method-Area’ modules by Rooney et al., 2003). I used reports on the amount donated to charities in nine different areas (religion, international affairs, health, arts and culture, public and social benefit, environment/wildlife and animal protection, education and research, sports and recreation, and ‘other’) to construct three measures for both survey years: (1) total amount donated; (2) amount donated to religion; (3) amount donated to other causes than religion. I distinguish religious from non-religious contributions because none of the churches in the Netherlands have right to bear the accreditation seal. The mean for the total amount donated in 2001 was €246. In 2003 it was €271; an increase of €19.⁶

Control variables – In the analyses below, I regress donations in 2004 on learning about the system, controlling for potential confounding variables to mitigate the concern that changes in giving between those who learned about the accreditation system and those who did not are not due to learning about the system but to some other characteristics. It could be, for instance, that those who gave more to charities in 2002 are more likely to increase their giving in the 2002-2004 period and that they are also more likely learn about the accreditation system, but that the latter does not cause the former.

As confounding variables I include the amount donated in 2001, generalized trust, the number of solicitations received (both measured in 2002) and a series of socio-demographic

⁵ An important concern for the analyses is whether the group of respondents that participated in the second wave is representative of those who participated in the first wave. Selective panel attrition may endanger the validity of conclusions on the effects of learning about accreditation. A logistic regression analysis of panel attrition on the predictors of giving in 2004 used in the analyses showed only one significant effect: a negative effect of the level of education, indicating that university graduates were more likely to leave the panel than those with lower levels of education. This is unfortunate because university graduates give more. The selectivity of panel attrition with regard to education will lead to an underestimation of the effect of education on giving in 2004.

⁶ Because the measure of giving refers to 2003, and awareness of the CBF system was measured in May 2004, awareness of the system could not have influenced giving for some respondents who may have learned about the CBF system after giving. This time lag introduces a downward bias in the effect of accreditation.

variables that are often found to be related to philanthropy: household income (log-transformed, originally measured in 24 categories ranging from €2.5k to €300k, higher incomes truncated), marital status (dummy variable for being married), having children (1=yes), working status (dummy variables for working parttime or having no paid work; full time paid work is the reference category), level of education (7 categories, ranging from primary education to post-doctoral degree), gender (female=1), age, town size (in 1,000s of inhabitants), and five dummy variables for religious affiliation (Catholic, Reformed Protestant, Rereformed Protestant, other Christian affiliation, non-Christian affiliation; no religious affiliation being the reference category). All these variables were measured in the 2002 survey.

Generalized Social Trust was measured with two items that are commonly used as two alternatives: 'In general, most people can be trusted' and 'You can't be too careful in dealing with other people'. Responses to these questions were strongly correlated ($r=.42$). Because the effect of trust seems to be non-linear (Bekkers, 2003) I did not use the original 1-5 scores, but recoded the average of the two items into a dichotomous 'high trust' variable. Those with a trust score above the mean were considered as 'high trustors'. Charitable confidence was measured in 2004 with a single item asking 'How much confidence do you have in 'charitable causes'?' on a scale from 1 ('none at all') to 5 ('very much'). 3.1% reported no confidence at all, 18.0% little confidence, 49.0% moderate, 29.5% much confidence, and 0.4% very much. Solicitations were measured with a list of the 10 different types of methods that nonprofit organizations use most frequently to raise funds. For each method, the respondent indicated whether she had been asked to donate to nonprofit organizations in the two weeks prior to the 2002 survey.⁷ 70.9% of the respondents reported at least one solicitation in the past two weeks. We distinguished between personal solicitations (64.7%) and impersonal solicitations (30.9%).

Results

First I estimate the influence of learning about the accreditation system on charitable giving in 2003. I do so by comparing donations in 2003 among those who learned about the accreditation system and those who had not, excluding those who already knew about the accreditation seal in 2002 because they cannot have learned about the system (see figure 1). Those who remained unaware of the system ($n=621$) gave €69 on average in 2003, which is about the same as two years earlier (€63). Those who learned about the system ($n=183$) gave €260 on average in 2003, which is substantially more than two years earlier (€208). Those who knew the accreditation system already gave on average €419 in 2003, a slight increase since 2001 (€395).⁸ This pattern of results suggests that those who became aware of the system increased their giving, while those who remained unaware hardly did so.

⁷ This question was also asked in the 2004 survey, but was not used because it refers to solicitations that took place on a moment in time (May 2004) after the donations that we are seeking to explain (calendar year 2003).

⁸ Logistic regression analyses were conducted to explore other differences between those who remained unaware of the system and those who were aware of it already in 2002 and became aware in 2004, respectively. Those who became aware of the system were younger, higher educated, and somewhat more likely to be members of an orthodox Protestant or other religious group and were significantly more trusting of others. Those who were aware of the system already in 2002 were more likely to be married, members of a small religious group, less likely to have children, more highly educated, more trusting of others, and more often attending church. They also received more solicitations for charitable contributions.

Figure 1. Mean amount donated in 2001 and 2003 (in €) by awareness of accreditation

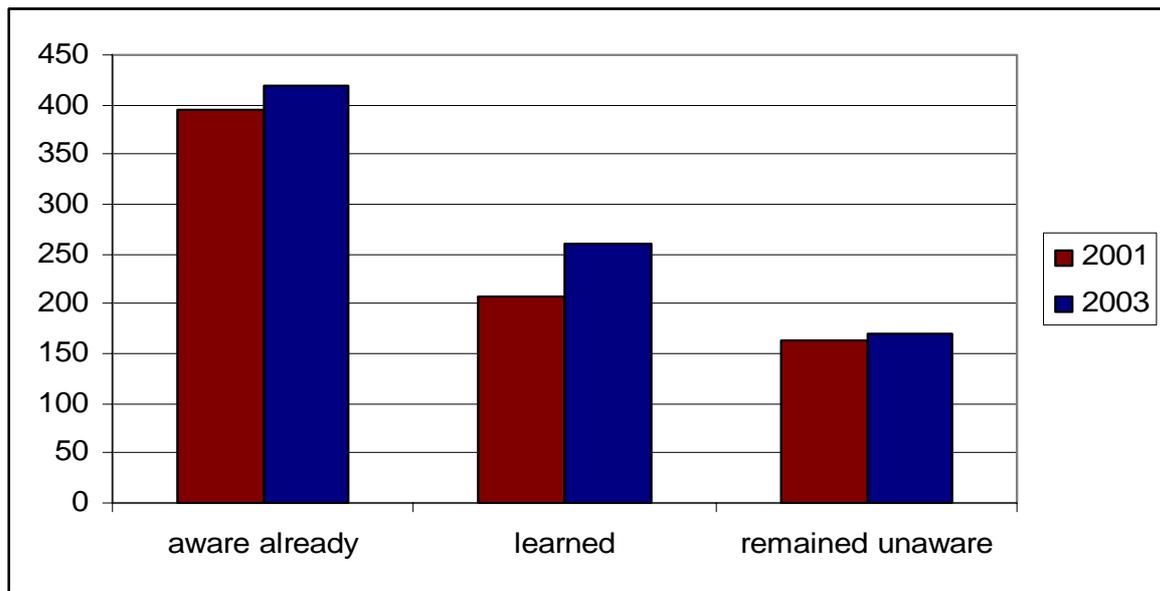


Table 1. Tobit regression of amount donated in 2003 (n=804; 650 uncensored, 154 censored)

	Model 1		Model 2		Model 3		Model 4	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Learned about CBF			*62.7	28.1	*57.3	27.9	53.6	103.4
Education	*14.1	7.1	(*)13.0	7.0	11.4	7.0	5.9	3.8
Income (x10k)	7.4	4.5	7.1	4.4	(*)8.3	4.4	(*)8.0	4.3
Church attendance	***6.1	0.8	***6.1	0.7	***6.1	0.7	***5.9	0.7
Personal solicitations	15.1	11.8	14.5	11.8	10.7	11.7	11.7	11.3
Impersonal solicitations	*40.1	19.1	*42.2	19.0	*42.6	18.9	*44.9	18.3
High trust	40.1	26.6	34.4	26.6	26.0	26.5	15.3	29.6
Amount 2001	***.400	.034	***.397	.033	***.390	.034	***.282	.036
Confidence					***66.5	18.3	***63.6	19.7
Irritation					10.7	11.1	9.6	10.1
Program spending					-0.2	0.7	-0.2	0.7
CBF*confidence							-27.5	33.4
CBF*high trust							-17.8	57.5
CBF*amount 2001							***.471	.066
Pseudo R Square	.0478		.0483		.0498		.0547	

*** p<.001; ** p<.01; * p<.05; (*) p<.10. Included in all regression models are controls for age, gender, marital status, working status, home ownership, town size, and religious affiliation.

A tobit regression analysis of the amount donated in 2003 on learning about the system shows that the gross effect of learning about the accreditation system is €14.⁹ When control variables are included, this difference is reduced to a (still significant) €3 (see table 1, model 2). This result supports hypothesis 3. The major part of the effect of learning about accreditation remains when charitable confidence, irritation and beliefs about program

⁹ The tobit model is used to take censoring of donations into account. The effect of learning about accreditation in the OLS model (€1) is somewhat smaller, but still significant (p<.006).

spending are included (see model 3). Controlling for these attitudes towards fundraising organizations, the effect of learning about the accreditation system remains about the same (€7). Thus, confidence hardly mediates the effect of learning about accreditation, despite the fact that it has a strong relationship with the amount donated. This result stands in contrast to hypothesis 4. The anomaly will be discussed below.

The results in model 3 support hypothesis 5, that learning about accreditation increases giving more strongly among those who gave larger amounts in the past. The interaction between learning about accreditation and the amount donated in 2001 is significant and positive. The main effect of the amount donated in 2001 is reduced in this model, implying that those who gave large amounts in 2001 did so again in 2003 in part because they learned about the accreditation system.

A comparison of model 2 with model 1 reveals that learning about the accreditation system hardly mediates effects of variables that affect giving. Only the effect of education decreases slightly when learning about the accreditation system is included in model 2. The introduction of charitable confidence in model 3 leads to a further reduction of the effect of education on giving. These results imply that a higher level of education is associated with higher giving partly because the higher educated are more likely to learn about the accreditation system and have more confidence in fundraising organizations.

Tables 2 and 3 show the results of a series of similar analyses separately for donations to religion and other causes. The analyses show that learning about the accreditation system only affects donations to causes other than religion. The positive effect of learning about accreditation in table 1 is driven by the effect on donations to causes other than religion.

Table 2. Tobit regression of amount donated to causes other than religion in 2003 (n=804; 632 uncensored, 172 censored)

	Model 1		Model 2		Model 3	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Learned about CBF	(*)30.4	15.6	(*)26.7	15.4	13.4	58.8
Education	*7.7	3.9	(*)6.8	3.9	(*)6.8	3.8
Income (x10k)	2.9	2.5	3.5	2.4	3.5	2.4
Attendance	0.6	0.4	0.7	0.4	(*)0.7	0.4
Personal solicitations	**17.5	6.5	*15.4	6.5	*13.5	6.3
Impersonal solicitations	**29.3	10.5	**29.3	10.4	**32.8	10.2
High trust	*35.4	14.7	*30.6	14.6	20.4	16.6
Amount religion 2001	.047	.035	.036	.034	.028	.043
Amount other 2001	***.196	.028	***.197	.028	***.146	.030
Confidence			***41.3	10.1	**39.5	11.0
Irritation			(*)10.4	6.1	(*)10.4	6.0
Program spending			-0.0	0.4	-0.0	0.4
CBF*confidence					-13.4	18.9
CBF*high trust					28.0	32.2
CBF*amount religion 2001					.008	.055
CBF*amount other 2001					***.410	.080
Pseudo R Square	.0215		.0236		.0271	

*** p<.001; ** p<.01; * p<.05; (*) p<.10. Included in all regression models are controls for age, gender, marital status, working status, home ownership, town size, and religious affiliation.

The results in model 1 of table 2 show that learning about the accreditation system increases giving to causes other than religion in 2003 with about €30 when socio-demographic characteristics and donations in 2001 are taken into account. The positive effect

of donations in 2001 indicates that giving to some extent is habit-like behaviour: an additional €100 in 2001 is associated with an additional €20 two years later. Model 2 reveals that confidence in fundraising organizations is strongly related to donations. However, confidence mediates only a small part of the influence of learning about the accreditation system. Controlling for confidence the influence of learning about the accreditation system is still €7. Those who express a higher level of irritation about fundraising campaigns do not give less than those who are less irritated – to the contrary, they give somewhat more. Beliefs about spending patterns are not related to giving to causes other than religion in 2003. Model 3 shows that the influence of learning about accreditation varies with the amount donated in 2001. Those who gave more to causes other than religion in 2001 increased their donations more when they learned about the accreditation system than those who gave smaller amounts.

Table 3 shows that the effect of learning about the accreditation system on donations to church in 2003 is not significant when confounding variables are taken into account. This is not very surprising since none of the major churches in the Netherlands has the right to bear the seal. Model 1 also shows that donations to religion in 2003 are very strongly correlated with donations to religion in 2001: an additional €100 to religion in 2001 is associated with an additional €76 to religion two years later. Model 2 shows that charitable confidence is not related to religious giving. Model 3 shows that the effect of learning about the accreditation system varies with the level of generalized trust in 2001. The negative coefficient indicates that those who had lower levels of trust increased their giving more than those with higher levels of trust as a result of learning about the accreditation system.

Table 3. Tobit regression of amount donated to religion in 2003 (n=804; 276 uncensored, 528 censored)

	Model 1		Model 2		Model 3	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Learned about CBF	14.1	34.4	14.1	35.4	19.8	130.9
Education	8.8	8.8	8.8	8.9	7.7	8.6
Income (x10k)	7.3	5.2	7.3	5.2	8.2	5.2
Attendance	***4.9	0.7	***4.9	0.7	***5.0	0.7
Personal solicitations	11.9	14.0	10.6	14.0	11.8	13.7
Impersonal solicitations	6.9	23.6	7.5	23.5	5.4	23.0
High trust	2.9	33.4	2.0	33.4	21.5	37.7
Amount religion 2001	***.763	.062	***.763	.062	***.616	.078
Amount other 2001	-.048	.061	-.048	.061	-.039	.067
Confidence			32.4	23.5	31.0	25.6
Irritation			-7.3	14.0	-8.8	13.6
Program spending			-1.2	0.9	-1.2	0.9
CBF*confidence					-7.2	42.1
CBF*high trust					(*)-136.4	75.7
CBF*amount religion 2001					***.348	.104
CBF*amount other 2001					.080	.159
Pseudo R Square	.1173		.1181		.1211	

*** p<.001; ** p<.01; * p<.05; (*) p<.10. Included in all regression models are controls for age, gender, marital status, working status, home ownership, town size, and religious affiliation.

Table 4 tests the influence of learning about the accreditation system on confidence in fundraising organizations, beliefs about program spending, and irritation about fundraising organizations. Although the analyses in table 1 and 2 show that most of the effect of learning

about the accreditation system is not due to these attitudes, it is still possible that the accreditation system does change them. If the accreditation system works, it should not only affect the magnitude of giving, but also improve the quality of decision making about giving. Donors should get more accurate information about the costs of fundraising and program spending and may get less irritated by fundraising campaigns when they know that an independent monitoring agency evaluates fundraising organizations.

However, learning about the accreditation system has not changed the attitudes towards fundraising organizations among all respondents. There is no significant effect of learning on confidence, irritation, or beliefs about program spending. But there is an interesting interaction effect of learning about the accreditation system with donations in 2001. The analysis of charitable confidence reveals that confidence in fundraising organizations among larger donors to causes other than religion increased after learning about the accreditation system, but that this effect does not occur among large donors to religious organizations, and neither among small donors. There are no significant interaction effects of donations in 2001 with learning about accreditation on irritation or beliefs about program spending. The results in table 4 also reveal that persons with higher levels of education, lower incomes, and a high level of trust in fellow citizens have more positive attitudes towards fundraising organizations.

Table 4. Regression analyses of confidence, irritation about fundraising campaigns, and beliefs about program spending (n=804)

	Confidence		Irritation		Program spending	
	Coeff.	S.E.	Coeff.	S.E.	Coeff.	S.E.
Learned about CBF	-.010	.074	.019	.114	.765	1.755
Education	*.035	.016	(*)-.042	.025	***1.362	.380
Income (x10k)	*-.021	.010	(*)0.026	.016	-.182	.241
Attendance	-.002	.002	.002	.003	.016	.041
Personal solicitations	*.071	.027	*-.084	.042	1.028	.646
Impersonal solicitations	-.016	.044	.069	.069	-.581	1.051
High trust	**1.182	.061	*-.212	.096	(*)2.422	1.463
Amount religion 2001 (x100)	.026	.018	.005	.028	(*)780	.434
Amount other 2001	-.012	.013	.010	.020	-.513	.309
CBF*Amount religion 2001	.000	.023	.002	.037	-.308	.568
CBF*Amount other 2001	**0.093	.034	-.058	.053	.922	.819
Constant	***2.944	.142	***1.841	.220	***39.190	3.363
Adj. R Square	.0885		.0364		.0370	

*** p<.001; ** p<.01; * p<.05; (*) p<.10. Included in all regression models are controls for age, gender, marital status, working status, home ownership, town size, and religious affiliation.

Study 2. The Effect of Accreditation on Fundraising Income

The aim of this study is to estimate the benefits of accreditation for fundraising organizations in terms of fundraising income. Do fundraising organizations raise more funds when they are accredited? How much is the benefit of accreditation? Which types of charities benefit the most from accreditation?

Data and methods

Sample – The analyses draw upon data from the Central Bureau of Fundraising on income of 157 major fundraising charities in the period 1994-2004. Since 1994, these charities have submitted annual reports to the CBF each year.¹⁰ Table A in the appendix reports the mean fundraising income, fundraising costs and the proportion of observations that were accredited in the years under study. The mean amount raised grew from €3.9 million in 1997 to €4.7 million in 2004. Fundraising costs increased too, and even more strongly in relative terms, from €672,000 in 1997 to €895,000 in 2004. In the first three years of the existence of the accreditation system, more than half of the organizations in the sample were accredited. The proportion grew at a slower pace in the consecutive years, to about 65% in 2004.

Measures – The CBF dataset contains information on income from fundraising (door-to-door campaigns, direct mail, planned giving, bequests), other types of income (from subsidies, stocks, sales and ‘other’ sources), and expenses (costs of fundraising, program expenses). Data on income from sources other than fundraising and data on expenses are not used. In the analyses below, ‘fundraising income’ refers to all sources of fundraising income. A sector code represents the sector in which the organization operates. Organizations for the handicapped, and the blind, which formed separate categories, were collapsed with the larger category of health organizations (e.g., fighting cancer, diabetes etc.). A country code indicates whether the organization is working in the Netherlands only, outside the Netherlands, or both.

Methods – A fixed effects regression model is used to estimate the effect of accreditation on fundraising income. When studying effects of nonrandom changes using longitudinal data, this model is preferred over random effects regression models (Halaby, 2004). Whether or not – and if so, when – charities are accredited is not randomly occurring event. The CBF announced its plan for an accreditation program in the early nineties. It was tested among a group of three well known fundraising organizations that were approved in 1995, but were not allowed to use the seal until December, 1996.¹¹ Another group of ten organizations entered the procedure in 1996, leading to the accreditation of 13 organizations on January 1, 1997, when the existence of the seal was made public in a press release. Another 4 organizations were accredited on July 1, 1997. The majority of these frontrunners were large health charities (e.g., Cancer Foundation, Diabetes Foundation, Kidney Foundation). In subsequent years, more and more organizations applied for the accreditation seal, also in other sectors than health. The fixed effects regression model rules out the possibility that stable, unobserved characteristics of charities like the sector in which the organization operates confound the effects of accreditation (Allison, 1994).

In order to evaluate the magnitude of the effects of accreditation, lagged fundraising income, fundraising costs in the current year, the preceding year and two years before are

¹⁰ The original dataset contained data on a much larger number of fundraising organizations, increasing over time, from 344 in 1994 to 522 in 2004. In the present analysis, all organizations that had missing observations in one or more years were disregarded to rule out composition effects. Table B in the appendix reports an analysis on a somewhat larger number of organizations, with essentially the same results.

¹¹ These three organizations were the Astma Fund, the World Wildlife Fund, and NOVIB (currently Oxfam Netherlands).

included in the regression models. In addition, the analyses include a variable 'year' to model the average annual growth in fundraising income.

Results

Table 5 yields an estimate of the effect of accreditation of 7.0%, controlling for lagged fundraising income, fundraising costs in the current year, lagged fundraising costs and two-year fundraising costs, and year. This result supports hypothesis 1.

Fundraising income is relatively stable over time. The bivariate correlation between fundraising income and lagged fundraising income is .430, meaning that 10% higher income in a given year is associated with a 4.30% increase in fundraising income in the consecutive year. Model 1 of table 5 reveals a somewhat lower estimate of the effect of lagged fundraising income of 2.19% because fundraising costs are also included in the regression model. Organizations raising more funds also spend more on fundraising, thereby increasing fundraising income in the next year.

The effect of fundraising costs of .337 indicates that a 10% increase in fundraising expenditure raises 3.4% more funds the next year. Fundraising costs in the preceding have an unexpected negative effect. The effect of year indicates that fundraising income grew on average 1.0% each year in the period 1995-2004.

Model 2 tests whether the effect of accreditation is constant in the period 1995-2004 by including an interaction between year and accreditation. The main effect of accreditation in this model represents the effect of one year accreditation. The interaction term represents the increase or decrease of the effect of accreditation for each year after the seal was first introduced in 1997. The results of model 2 suggest that the effect of accreditation has declined over time. In the first year, accreditation yielded 18% additional fundraising income. Each year after 1998, the effect declined with 2.0%. This result suggests that the advantage of being accredited will be lost in 2007, 9 years after its first introduction in 1998. The decline, however, may also be a period effect for 2003-2004, as the results in model 3 show. Fundraising organizations that were accredited in 2003 and 2004 had no benefit of accreditation; the main effect of accreditation together with the interaction effect for the years 2003 and 2004 is about zero. A post hoc explanation this finding is that the media coverage of salaries of managers of fundraising organizations in these years made the public aware that the accreditation system has no rules on salaries of employees of fundraising organizations.¹²

In an alternative specification that included an interaction of accreditation with the number of years an organization has been accredited in the regression model, I find a negative effect of this interaction of -.019 (.009), $p < .037$. The main effect of accreditation in this model is .073 (.033), $p < .030$. This result suggests that the benefit of accreditation for fundraising organizations is largest in the first year, and declines as organizations have had the seal for a longer period of time.¹³

¹² In an analysis excluding the two organizations that suffered in the media (Plan Netherlands and the Dutch Heart Association) the same significantly negative effect of accreditation in the years 2003 and 2004 is observed. This means that the decrease in the effect of accreditation in these years is not due to the decrease in fundraising income due to negative media reports for these two organizations, but may reflect a decrease in the credibility of the accreditation seal across the whole philanthropic sector.

¹³ Including both interaction terms is not possible because the two are too highly correlated (.859).

Table 5. Fixed effects regression of fundraising income on accreditation, lagged fundraising income, fundraising costs and year

	Model 1			Model 2			Model 3		
	Coeff.	SE	<i>p</i>	Coeff.	SE	<i>p</i>	Coeff.	SE	<i>P</i>
Income t_{-1}	.219	.031	.000	.221	.031	.000	.218	.031	.000
Fundraising costs t_0	.337	.028	.000	.340	.029	.000	.338	.029	.000
Fundraising costs t_{-1}	-.049	.033	.142	-.049	.033	.142	-.048	.033	.150
Fundraising costs t_{-2}	.071	.028	.012	.070	.028	.013	.070	.028	.013
Accredited	.070	.034	.037	.183	.060	.002	.066	.034	.049
Year	.010	.005	.056	.020	.007	.003	.017	.006	.004
Accredited * year				-.021	.009	.024			
Accredited*2003/04							-.076	.006	.004
Constant	6.672	.453	.000	6.589	.454	.000	6.642	.452	.000
R2 within		.337			.341			.286	
R2 between		.953			.953			.958	
Obs		1133			1133			1305	
Groups		136			136			136	

Who benefits most?

Two analyses reported below in table 6 tested effects of accreditation among specific groups of fundraising organizations. These analyses yield two conclusions. First, for organizations at the low (less than €200,000, $n=7$ in 2004) or high (more than €5,000,000, $n=32$ in 2004) end of the fundraising income distribution accreditation yields significantly smaller benefits than for medium sized organizations. Second, international aid organizations benefit less than other organizations.

The first conclusion is discomfoting for very small organizations. The cost of the accreditation procedure (about €4,500) is a substantial amount for small fundraising organizations, and it does not benefit them at all; what is more, it actually *reduces* fundraising income with almost 12% (.105-.224=-.119). For organizations with fundraising income between €200,000 and €5,000,000 the benefit of accreditation is 10.5%. Taking an organization with fundraising income of €500,000 as an example, the benefit of accreditation in the next year (€2,500) easily exceeds the costs. The effect of accreditation for very large organizations is substantially less positive than for medium sized organizations, but still positive (.105-.079=.026).

The second conclusion stands in contrast to hypothesis 6 that international organizations would benefit more from accreditation. The results show that fundraising organizations working internationally have virtually no benefit of accreditation (.113-.100=-.013). With the present data it is difficult to explain this anomaly.¹⁴ The practical implication, however, is clear. For international charities, fundraising income does not increase with accreditation.

¹⁴ It is not due to changes in fundraising costs after accreditation because fundraising costs are included in the model. The result is also not due to differences in size between national and international organizations because the effect is virtually the same when the interactions of model 1 are included.

Table 6. Fixed effects regression of fundraising income on accreditation, lagged fundraising income, lagged fundraising costs and year

	<i>Past income</i>			<i>Abroad</i>		
	Coeff.	SE	<i>p</i>	Coeff.	SE	<i>P</i>
Income t-1	.213	.031	.000	.214	.031	.000
Fundraising costs t ₀	.334	.029	.000	.335	.029	.000
Fundraising costs t ₋₁	-.048	.033	.150	-.045	.033	.179
Fundraising costs t ₋₂	.073	.028	.009	.070	.028	.013
Accredited	.105	.037	.004	.113	.039	.004
Year	.010	.005	.046	.010	.005	.052
Accredited * <200k	-.224	.108	.038			
Accredited * >5,000k	-.079	.045	.083			
Accredited * Abroad				-.100	.048	.036
Constant	6.749	.462	.000	6.720	.454	.000
R2 within		.342			.340	
R2 between		.950			.951	
Obs		1133			1133	
Groups		136			136	

Conclusion

The findings support the view that accreditation may solve the fundraising problem for nonprofit organizations and the trust problem for donors. I found support for hypothesis 1 that accreditation increases fundraising income of nonprofit organizations. I found an average 7.0% increase in fundraising income after accreditation in the period 1994-2004. I also found support for hypothesis 2 that individuals who learn about the accreditation system increase their donations to charitable causes. The effect of accreditation is about €60 in two years. No support was found for hypothesis 3, that learning about accreditation increases confidence in charitable organizations, and hence also no support was obtained for hypothesis 4 that learning about accreditation increases giving through enhanced confidence. Among larger donors to causes other than religion confidence did increase after learning about the accreditation, as did their giving. This finding supports hypothesis 5, that learning about accreditation affects large donors more strongly than small donors. However, a large part of the effect of accreditation remains unexplained. Perhaps accreditation merely justifies donations without improving confidence. When an independent monitoring agency accredits a fundraising organization that a donor is supporting, the donor may not necessarily feel more confidence in the organization, but will feel justified in giving. Future research is clearly needed here.

Finally, I found that the benefits of accreditation are smaller for international fundraising organizations. This finding stands in contrast to hypothesis 6, which predicted that international fundraising organizations are more strongly affected by accreditation than domestic organizations. It is unclear why this is the case.

Discussion

The focus of this article was on the benefits of accreditation for fundraising organizations themselves in terms of fundraising income. But donors are also likely to gain from the accreditation system when fundraising organizations comply with the standards of excellence required to bear the seal. It is likely that the quality of internal organization in general and accounting practices in particular, as well as transparency and accountability to

donors increases because of accreditation. However, these benefits could not be studied in the present paper.

Despite its advantages, the accreditation system is not without its drawbacks. As in for-profit markets (Bennet and McCrohan, 1993), the costs associated with accreditation be too high for small fundraising organizations. For the first five years, the accreditation seal costs on average €3,872 (€3,439 in the next five years). If the seal increases fundraising income with, say, 10%, fundraising income needs to be at least €38,720 a year for at least five years to make the accreditation procedure worth while from an economic perspective. For small fundraising organizations, this may be a large investment.

The maximum fundraising cost ratio of 25% may also be unfair to small organizations. This ceiling punishes new organizations, and organizations that are trying to raise funds for unpopular causes (Steinberg, 1986). The ceiling also punishes organizations that have no volunteers available for door-to-door fundraising. Door-to-door fundraising is still a very common method to raise funds in the Netherlands. Such fundraising is done by unpaid volunteers for large, national fundraising organizations. About one in five volunteers in the Netherlands are active in raising funds (Bekkers, 2005). Thus, fundraising nonprofit organizations receive a significant source of income at virtually no cost when they can use volunteer fundraisers. This is mainly the case for large, established health charities like the Dutch Heart Association and the Cancer Foundation (KWF). For a new organization, the ceiling of 25% poses a problem, even when the organization has been active three years. The CBF acknowledges that the maximum of 25% may be exceeded in specific circumstances, and effectively uses a three year average for fundraising costs in the evaluation procedure. This makes sense but may still be too strict for specific types of nonprofit organizations.

A potential unintended side-effect of the increasing awareness of the accreditation seal and the 25% maximum for fundraising costs (its most well known rule) is that a competition for low fundraising costs may emerge. In order to present low fundraising costs to the public, fundraising organizations may be tempted to administratively reduce fundraising costs through violations of the principle of joint cost allocation or considering fundraising campaigns as programs when they contain educational material (Hager, 2003). At present, CBF accounting rules are not clear cut on this issue. Although there are limits to the level of detail of rules and the costs of enforcement of these rules, more specific guidelines are needed here in order to prevent misrepresentation of fundraising costs.

A final limitation of the accreditation system is that it contains no rules on salaries of managers. The Dutch public clearly desires more regulation and transparency here. Violations of (low) expectations on salaries caused a drop in fundraising income for two well known fundraising organizations in 2003 and 2004. The analyses in study 2 revealed that the accreditation seal lost its effect precisely in these years. To keep the public's trust, rules on salaries of managers of fundraising organizations should be included in the CBF standards of excellence.

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Table A. Means for key variables per year

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Finc	3274	3281	3542	3883	4067	4525	4667	4718	4730	4537	4693
Fcost	452	497	533	562	672	693	717	795	853	835	895
Cbf	0	0	0	9.87	28.34	42.99	51.59	56.05	61.78	62.42	64.64

Finc: fundraising income (x€1000); Fcost: fundraising costs (x€1000); CBF: % accredited

Table B. Effects of accreditation among fundraising organizations with missing observations (but at least 10 observations)

	Coeff.	SE	<i>p</i>	Coeff.	SE	<i>P</i>	Coeff.	SE	<i>p</i>
Income t-1	.290	.026	.000	.291	.026	.000	.290	.026	.000
Fundraising costs t-1	.128	.023	.000	.128	.023	.000	.129	.023	.000
Accredited	.080	.031	.011	.142	.061	.020	.089	.032	.006
Year	.020	.004	.000	.023	.005	.000	.023	.005	.000
Accredited * year				-.010	.009	.236			
Years accredited							-.010	.009	.238
Constant	8.183	.380	.000	8.161	.332	.000	8.277	.381	.000
R2 within		.277			.277			.277	
R2 between		.959			.959			.959	
Obs		1633			1633			1633	
Groups		188			188			188	