

Abstract for review

European Research Network On Philanthropy
8th International Conference Copenhagen, July 13-14, 2017

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The Impact of Overhead Costs on Donations to Human Service Nonprofits: A Laboratory Experiment

Reference:	48278993
Number of authors:	1
Keywords:	nonprofit, donations, overhead costs,
Topic:	Cross-country studies of philanthropy
Theme of abstract:	
Research method:	Quantitative
Geographical focus:	Single country (Other countries)
Type of article:	Research article

Abstract:

Prior research shows that individual donors tend to avoid charities that dedicate a high percentage of expenses to administrative and fundraising costs i.e. overhead costs because it restricts a nonprofit's ability to be effective and fulfill its mission (Weisbrod & Dominguez, 1986; Tinkelman & Mankaney, 2007; Tinkelman, 1999; Greenlee & Brown, 1999). In other words, many of us would prefer to see our charitable donations go directly to an organization's core mission, rather than to overhead costs. Although we all understand that CEOs of nonprofits need to be paid, given the choice of where our donations go, most of us would not choose to contribute to the salary of the organization's CEO.

However, this project argues that the use of overhead spending as a primary proxy is intensely flawed and has brought a number of unfortunate consequences to the nonprofit sector. Reducing spending on overhead can negatively impact a nonprofit's ability to initiate fundraising campaigns, invest in long term planning, sufficiently support overall infrastructure which can ultimately undermine efforts to fulfill the mission effectively (Gneezy et al., 2014). In addition, it may encourage dysfunctional behavior by managers like hiding administrative costs as a part of programmatic expenditures and underreporting of fundraising expenses (Krishnan, Yetman, & Yetman, 2006). Further, a 2004 study by the Urban Institute and the Center on Philanthropy at Indiana University argues that competition to show low overhead costs "induces nonprofit

managers to under-invest in good governance, planning compliance, and risk management, collection of data for service performance evaluations and staff training” (pg. 4).

This study will utilize a laboratory experiment involving 1,000 undergraduates enrolled at a major urban university in the United States. Student participants will be randomly assigned to one of five treatment conditions and presented with identical factual information about two real charities. Participants will then be asked to decide which of the two charities should receive a \$100 donation and informed that at the end of the day their choice will help determine which one of the two nonprofits will receive \$2,500 towards actual overhead costs.

Most important references:

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