

Surprise! A High-Efficiency Rating Can Hurt Giving

By Alex Daniels

Do donors always flock to charities that are efficiently run? Not necessarily, says a recent paper by researchers at George Mason University, especially when a nonprofit's acclaim is made public.

The Theory

Donors have grown to depend on nonprofit rankings to help determine where to make their gifts and often reward charities that steer greater percentages of their revenue to programs.

The Test

The researchers gave 99 students at George Mason \$25 each to split among their choice of three nonprofits from a list of more than 5,400. After making their choices, participants were told privately how the watchdog Charity Navigator rated their picks, based on how much the nonprofits spent in pursuit of their mission versus on fundraising and administrative costs. Students were then allowed to reallocate their gifts among the three charities. Next, the students were told the ratings of their nonprofits would be revealed to the entire group and given a second opportunity to reallocate their money in private.

The Result

When donors thought that only they would know a charity's efficiency rating, a lower rating did not persuade them to change their donation. When the rating was better than expected, 18 percent of the students increased their gifts, by an average of 38 percent.

However, when students learned that the nonprofit's performance would be made public, 36 percent of those who altered their donations steered money away from highly rated charities. The reason, says Luigi Butera, a co-author of the study, is that many donors who give to enhance their standing among their peers figured that a more efficient charity doesn't need as much money.

The study suggested that supporters of well-run charities may opt to "give smart but give less," says Mr. Butera, who is now a research fellow in economics at the University of Chicago. "The cost of looking good decreases."

Digging Deeper

The study may indicate that donors' expectations are low, Mr. Butera says. "People tended to be pessimistic about how good their charities were," he says. "When the information was private, there was almost zero response to bad news." More research is necessary, he says, to determine how information about a charity's efficiency guides new, as opposed to existing, donors.

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