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Christopher D. B. Burt

# Managing the Public's Trust in Non-profit Organizations



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Christopher D. B. Burt

# Managing the Public's Trust in Non-profit Organizations

 Springer

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*To Jo*  
*For moments of beauty and happiness*

# Foreword

## This Series

The time has come for innovative social science to contribute more to poverty reduction. The 2015 Millennium Development Goals (MDGs) are at risk from the global financial crisis and climate change inertia (United Nations 2012).<sup>1</sup> There are calls for hitherto silent disciplines—work psychology being the leading example—to help translate this MDG “grand plan” into everyday human behavior (Easterly 2006).<sup>2</sup> Just as demand has risen noticeably, so too has psychology’s supply (Carr and Bandawe 2011).<sup>3</sup> For the first time since the 1940s, in fact, a critical mass of psychological research is now focused not simply on poverty *per se* but on its *reduction* (Carr 2013).<sup>4</sup> Moreover, we find ourselves for the first time arguably (see Footnote 4) focusing in the same place as the policy makers and other disciplines such as economics—the enablement of “human capabilities” (Sen 1999).<sup>5</sup> Human capabilities, perhaps we might call them competencies, are the stock-in-trade of psychology, as well as in other social sciences. They include (for instance) improved health and well-being, supportive classroom environments, the promotion of social inclusion, gender equity, decent work conditions, and environmental awareness (Carr and Sloan 2003).<sup>6</sup> According to capability theory, these behavioral freedoms are all key means by which poverty is reduced.

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<sup>1</sup> United Nations. (2012). *The millennium development goals report 2012*. New York, NY: United Nations.

<sup>2</sup> Easterly, W. (2006). *The white man’s burden*. Harmondsworth, UK: Penguin.

<sup>3</sup> Carr, S. C., & Bandawe, C. R. (2011). Psychology applied to poverty. In P. Martin, F. Cheung, M. Kyrios, L. Littlefield, M. Knowles, J. M. Prieto & J. B. Overmeier (Eds.), *The International Association of Applied Psychology [IAAP] handbook of applied psychology* (pp. 639–662). Brisbane: Wiley-Blackwell.

<sup>4</sup> Carr, S. C. (2013). *Anti-poverty psychology*. New York: Springer.

<sup>5</sup> Sen, A. (1999). *Development as freedom*. Oxford, UK: Oxford University Press.

<sup>6</sup> Carr, S. C., & Sloan, T. S. (2003). *Poverty and psychology: from global perspective to local practice*. New York: Springer.

This series connects supply with demand. First, it features the very best *innovative* psychological research on poverty reduction and capability development. Second, it employs an innovative *format*, the Springer Brief. This is because the research is *programmatically*—too big for a journal article, too new for an entire book, but tailor-made for a monograph. Third, it will build momentum in the nascent field of humanitarian work psychology, including poverty reduction and its links with development economics and related social sciences.

The audience for these briefs is twin-faceted. On the one hand, it will appeal to applied psychologists in health, education, community, and organizations, as well as psychologists studying poverty reduction *per se*. On the other hand it will also, because of the need for fresh perspectives in development studies and policy formation with respect to the primary MDG of halving global poverty by 2015, appeal widely. Included are economists both macro- and micro-level, scholars of business and management at a “meso-” (mezzanine) level, educationalists in development studies, health and allied disciplines, sociology of development, social anthropology, international studies, and the politics/political science of development. The series will also chime with policy makers in aid and development, including both non-profit multilaterals and for-profit multinationals who are increasingly interested in the poverty reducing potential of corporate social responsibility.

## **This Brief**

At the time of writing, the Organization for Economic Cooperation and Development (OECD) Global Network of Foundations Working for Development (netFWFD) has just met to start developing a set of best practice principles for effective Philanthropic engagement (<http://www.oecd.org/site/netfwd/>). This Brief is directly relevant to that work, and thereby to the multisectoral, global debate on the new “post-Millennium” Development Goals, set to be introduced by 2015 (when the current “MDGs” expire).

Talk to anyone about charitable work, much of which is conducted by Non-Government Organizations (or “NGOs,” also known as non-profit, Third Sector, civil society, voluntary and community-based organizations): Sooner or later people will mention the T-word, “trust.” They may also mention perhaps “not” donating because they do not trust in a particular NGO, and more importantly, making a donation because they do. Yet strangely enough, much of the research on trust, as far as poverty reduction and the MDGs is concerned, has been focused on trust in government rather than non-government organizations, including bilateral (national government to national government) and multilateral (international government-funded) organizations like the United Nations, World Bank and

World Health Organization.<sup>7</sup> Concepts like “radius of trust” are likely to be applied to a citizenry’s trust in government services, and society generally, in low- rather than higher-income settings,<sup>8</sup> with lack of trust being used as an argument for by-passing Direct Budget Support (to host governments) with more direct and localised non-government “project aid,” often through NGOs.<sup>9</sup>

Given the rise, and rise of NGOs in poverty reduction initiatives,<sup>10</sup> including as fund-raisers and dispensers of funds designed to help alleviate poverty,<sup>11</sup> there is a significant gap in our understanding of how trust matters in raising funds for charitable work and projects, including poverty reduction. In the context of global development goals, the gap arguably stands out at the “supply” as well as at the demand ends of aid networks: Global society and civil society groups need to understand the frequent mediation of campaigns and giving behaviour by human factors, notably people’s trust. Their trust is placed, or needs to be placed, in charitable giving by comparatively affluent citizens with disposable income. This Brief is innovative first and foremost because it addresses—and narrows—that gap.

Psychology as a discipline and profession has been particularly lax, and silent, when it comes to making a contribution to poverty reduction. Some research has been indirectly related to fund raising, and charitable giving, notably through the concept of attributions for the causes of poverty.<sup>12</sup> However very little of that research has made an applied connection to the practices of poverty reduction through sustainable and efficient fund-raising by charitable organizations.<sup>13</sup> Attributions of all kinds, including attributions about trustworthiness in NGOs themselves, are at the core of whether people will support their campaigns—by making donations, by volunteering, or by participating as aid “recipients.”<sup>14</sup> A second way in which this Brief is innovative is that it speaks directly to community engagement with fund-raising organizations, through organizational and in particular cognitive work psychology.

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<sup>7</sup> Easterly, W., & Pfitze, T. (2008). Where does the money go? Best and worst practices in foreign aid. *Journal of Economic Perspectives*, 22(2), 29–52.

<sup>8</sup> Easterly, W. (2006). *The white man’s burden*. Harmondsworth, UK: Penguin.

<sup>9</sup> MacLachlan, M., Carr, S. C., & McWha, I. (Eds.). (2008). *Interdisciplinary research for development: A workbook on content and process challenges*. New Delhi: Global Development Network/GDN Books.

<sup>10</sup> Werker, E. Z., & Ahmed, F. Z. (2008). What do nongovernmental organizations do? *Journal of Economic Perspectives*, 22(2), 73–92.

<sup>11</sup> MacLachlan, M., Carr, S. C., & McAuliffe, E. (2010). *The aid triangle: Recognizing the human dynamics of dominance, justice and identity*. London: Zed Books.

<sup>12</sup> Furnham, A. (2003). Poverty and wealth. In S. C. Carr & T. S. Sloan (Eds.), *Poverty and psychology: From global perspectives to local practice* (pp. 163–183). New York: Springer.

<sup>13</sup> Harper, D. (2003). Poverty and discourse. In S. C. Carr & T. S. Sloan (Eds.), *Poverty and psychology: From global perspective to local practice* (pp. 185–204). New York: Springer.

<sup>14</sup> Baguma, P., & Furnham, A. (2012). Attributions for and the perceived effects of poverty in East Africa: A study from Uganda. In S. C. Carr, M. MacLachlan & A. Furnham (Eds.), *Humanitarian work psychology* (pp. 332–350). Basingstoke, UK: Palgrave-Macmillan.



Since the early days of attribution research, and especially during the past few decades, the world has seen amazing changes in digital technology and communications. These changes have undoubtedly changed, radically, the ways that much fund-raising, and interfacing with the “donor public,” and their “donor dollar,” is done. Researching this Preface for instance, the first thing I am asked when conducting an Internet search and finding a potential article of relevance is, do you *trust* this site? In an Internet-mediated environment, trust is increasingly at a premium. Concepts like radius of trust matter tremendously, just as they do in respect of governments. A recent poll of Americans, for example, has shown that trust in each other has declined significantly during the past five decades, with digital communication having a role to play in building trust back up.<sup>15</sup> This Brief is innovative because it addresses that kind of probability empirically.

The predominant methodology discussed throughout the Brief is experimentation, both laboratory and field (naturalistic). Experimentation is sometimes criticized for being “overly” objective (meaning distanced, cold, aloof), of artificially separating itself from its own subject-matter, people. The research covered in this volume is very different from that stereotype. Essentially it focuses on finding out and synthesizing by a combination of experimentation and careful critical review. It extrapolates from research and theory “what works” in terms of developing trust, and why, with and within people, potential donors to charitable causes, including poverty reduction. In fact the ethos of the Brief is very much what the United Nations, in its espoused “Paris Declaration” principles for implementing the MDGs,<sup>16</sup> terms “Managing for Results”<sup>17</sup> According to the OECD, “Managing for results means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making” (<http://www.oecd.org/dac/effectiveness/34428351.pdf>, p. 7). This Brief fits that definition perfectly.

Other principles in the Paris Declaration on Aid Effectiveness include (for instance) mutual Accountability and Harmonisation (nonduplication, efficiency of service). These are discussed in the text itself, where they are operationalized into practical forms like “overhead ratios” and “donation-splitting.” Beyond development policy principles, the text further connects with applied disciplines that focus on poverty reduction in general, and charitable behavior in particular. Included for instance is the social marketing of NGO brands, and their links to giving behavior.<sup>18</sup> Thus, this Brief connects with, and complements, a diversity of applied perspectives on charitable issues connected with poverty reduction. They range from policy principles stated at the macro level all the way to behavioural

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<sup>15</sup> Retrieved December 4, 2013, from <http://townhall.com/tipsheet/heatherginsberg/2013/12/02/americans-dont-trust-each-other-anymore-n1756037>

<sup>16</sup> Annan, K. (2000). *We the peoples*. New York: United Nations.

<sup>17</sup> Paris Declaration on Aid Effectiveness. (2004). *Paris declaration on aid effectiveness*. Paris: United Nations.

<sup>18</sup> Sargeant, A. Ford, J. B., & Hudson, J. (2008). Charity brand personality: The relationship with giving behavior. *Nonprofit and Voluntary Sector Quarterly*, 37, 468–491.

principles at the level of individual behavior. In short, the Brief addresses a criticism that has been made of the MDGs, and their implementing principles—that they do not provide any guidance to managers (in this case, fundraising managers) about how to translate worthy but somewhat lofty (macro-level) goals and ideas into everyday workplace practice. (see Footnote 2)

## **Quo Vadis?**

In market terms, the brief will be of interest and relevance to policy makers from the netFWD, and to social scientists of all denominations, from cognitive psychology to social capital and the economics of altruism versus self-interest. In-between the policy forums and the academe, at the proverbial coalface of fundraising itself, the volume will be of practical benefit and usage for fundraising managers.

If trust is hard to earn and easy to lose as the theory and evidence herein suggests, then NGOs have to use every bit of evidence to guide best practice as possible. In the same way that some economists have advocated the issuing of aid vouchers, so that recipients can vote for NGOs and their projects “with their feet,” (see Footnote 2) the competition for trust may determine which charitable NGOs are ultimately fit for purpose.

Stuart C. Carr

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Stuart C. Carr

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# Chapter 1

## Trust and Donating Money

Donor's trust in a charity is arguably a key factor in determining their support for the charity. Trust allows people to engage in acts with the feeling that another person or organization will not take advantage of those acts. Trust is based on expectations that what is expected of another will in fact occur. Having trust or being trusting can result in decision-making being more efficient, as trust reduces the need to obtain and interpret information (McEvily et al. 2003). Many scholars have commented on the importance of donor trust in a charity for the charity's fundraising process (e.g. Bekkers 2003; Bruce 1994; Drucker 1990; Kotler and Andreason 1991; Mullin 1995; Sargeant and Lee 2004; Sumption 1995); it is the relationship between donor trust in a charity and donating which is the primary focus in this book. While it is clear that donor trust is associated with the amount of money which a charity fundraising effort is likely to generate, it is also the case that the sustainability of a charity's donor population, and its growth, are linked to trust development (Naskrent and Siebelt 2011). While such generalizations are supported by research, trust is a complex issue. In this opening chapter the various foundations of trust which a charity needs to consider, and/or manage, in their attempt to build a trust relationship with the public and with donors, are discussed.

Before exploring the foundations of trust it is necessary to briefly clarify what is meant by the term 'charity'. The answer to this seemingly simple question is surprisingly complex. Many organizations have charity status, and what defines charity status varies from country to country. The charity classification is often linked to taxation exemptions, and while there are obvious reasons why it would not be desirable to tax a charity (to tax public donations), some organizations with charity status rely very little, if at all, on donations from the public for funding. Much of the literature discussed in this book uses the term 'charity' to describe the general focus of interest. The use of terms such as aid-agency and non-profit organization is also common. However, to facilitate the development of a text on donor trust, it is necessary to adopt the use of a term which can be used to describe the organizations which donors interact with, and as such, this book will use the term *charity*. Furthermore, and with due respect to authors that have laboured to point out the complexities of the charity world (e.g. O'Neill 2009), I will define the term *charity* as applying to organizations that are funded primarily from public

donations. In adopting this position, it is acknowledged that generalizations made in this work are somewhat limited to this segment of the charity sector.

It is also important to note that trust is but one part of the puzzle which explains why people make donations. While trust is the central focus of this book, interested readers can consult a number of very informative works which offer a much broader perspective on the factors found to be associated with donating (e.g. Bekkers 2010; Bekkers and Wiepking 2011a, b; Bendapudi et al. 1996; Brady et al. 2002; Sargeant and Woodliffe 2007). Fundraising managers, and committees involved in the development of fundraising campaigns, need to appreciate the wide range of factors which can influence the success or not of their fundraising campaign (e.g. for a review, Carr 2013, [Chap. 6](#)). That said, without trust between a donor and charity it is likely that the other factors which can influence donating will become rather mute. For example, Bekkers and Wiepking (2011a) (also see Bekkers and Wiepking 2011b) in their editorial to a special issue of the *International Journal of Non-profit and Voluntary Sector Marketing*, succinctly describe the main drivers of philanthropic donation behaviour as: '(1) awareness of need; (2) solicitation; (3) costs and benefits; (4) altruism; (5) reputation; (6) psychological benefits; (7) values and (8) efficacy' (p. 291). While the word 'trust' does not directly appear in their list of drivers, several of them at least (e.g. (5) (7) and (8)) have a logical indirect linkage with trust.

While the majority of the research discussed in this book has a focus on the relationship between trust and the donation of money, trust is also associated with other types of donating. For example, Ferguson (1996) provides a useful overview of the factors which are associated with the donation of blood (also see Piliavin and Callero 1991; Smith et al. 2011) and Bekkers (2012) discusses trust issues associated with volunteering (the donation of time) (also see Bekkers and Bowman 2009; Taniguchi 2013; Jennings and Stoker 2004). While there are some idiosyncratic aspects to the relationship between trust and the donating of blood and time, it is also fair to say that much of the discussion in this book can be at least partly generalized to these different forms of donating.

Finally the importance of trust is not only recognized by scholars and used as a motivation to conduct research, it has also been central in the development of policy and legislation. For example, the United Kingdom's amendment to the Charities Act (2006), introduced 'increasing public trust' as an objective of the Charities Commission (see <http://www.legislation.gov.uk/ukpga/2006/50/section/7>). While a charity can be guided by such objectives, to truly manage their donor's trust they need to engage in trust building *processes*. Building a trust relationship with customers and clients can give an organization a competitive advantage (Barney and Hansen 1994). It might be expected that a degree of competitive advantage could come if a charity incorporates a trust building strategy into its fundraising activities. The aim of this book is to offer useful and practical suggestions, evidence-based, which could form the basis of a charity's trust building strategy.



## 1.1 General Trust Foundations

The remainder of this chapter discusses the theoretical foundations of trust which have been developed across a number of different fields. Trust is important in a wide array of situations, and many works have examined trust in terms of the basic processes which are required for its development. In particular, the *cognitive* and *affective* foundations of trust can be applied to all situations in which individuals develop trust. There are also *individual differences* factors in terms of an individual's personality, and broader *societal* beliefs, which impact on trust development. Furthermore, *context* also has an impact on trust development and there are a number of specific contextual aspects of the relationship between donors and charities, which have implications for trust development from *categorical* (trusting charities per se) to *transactional* (confidence a gift will get there).

### 1.1.1 Cognitive Trust

Interpersonal trust (trust between two people) has both cognitive and affective components (McAllister 1995). Similarly, trust by a donor for a charity, or for aspects of a charity, will have both a cognitive and an affective aspect (see [Sect. 1.1.2](#)). The cognitive component of trust is based on the donors understanding of such things as a charity's ability, benevolence, reliability and predictability, and this understanding forms the foundation for reason, choice, evaluation of worthiness and anticipation of behavioural integrity (Mayer et al. 1995). Thus to a considerable extent, the cognitive aspect of trust is based on the amount and nature of knowledge which a donor has of a charity. Collectively, this knowledge allows for a judgement of trustworthiness or not (Barney and Hansen 1994), and the perception of trustworthiness provides for the development of a trust relationship between a donor and the charity. The cognitive aspect, or rationale decision-making aspect, of trust means that trust between a donor and a charity can be informed by research which has examined trust development processes across a vast array of dyadic relationships (e.g. Yakovleva et al. 2010).

Clearly, donor trust in a charity, and a charity's trustworthiness, can be managed based on the rational decision-making or cognitive foundation of trust. Potential donors need to, and in many respects want to, learn to discriminate between the trustworthy and the opportunistic, and to facilitate this motivation for differentiation charities need to *provide potential donors with cumulative and acceptable evidence*. As information gaps are reduced by a charity, the donor has a more complete base from which to make a rational judgement of trustworthiness and to freely develop, or not, trust in a charity. [Chapter 4](#) discusses the key information which donors may need to help nurture this capability, and some strategies for delivering the information, which should help provide for the rational (cognitive) development of trust and trustworthiness.

The cognitive foundation of trust has a *cumulative experience* aspect, and this is at the heart of the *history-based* trust development processes discussed by Kramer (1999). The need for cumulative evidence is linked to perceptions of reliability and attests to the fragility of trust. A trust development strategy needs to provide for an interactional history between a donor and a charity, which provides for the updating of trust-related expectations and the maintenance of trustworthiness beliefs. An interactional history also provides the necessary conditions for a trust relationship, as *relationship* by definition implies a degree of continuity. Consistency of experience may maintain trust, whereas a deviation or unexpected experience may undermine or decrease trust. Thus for a donor to continue their relationship with a charity, history-based trust development processes suggest a constant stream of up-to-date information is needed. As such, a charity must realize that it has to continuously provide relevant information to *maintain* their trust relationship with donors. Chapter 4 discusses how a charity might use their website to achieve this objective.

### 1.1.2 Affective Trust

The affective, or emotional, component of trust is centred around reciprocated care and concern (McAllister 1995). In the relationship between a donor and a charity, the reciprocated care and concern is defined by the care and concern which the donor has towards the focus of the charity, and the perceived care and concern which the charity is assumed by the donor to show towards that focus. Thus *affect-based* trust can be seen as grounded in a donor's attributions concerning the motives for a charity's behaviours. A good example to illustrate the affective aspect of trust is the Sea Shepherd Conservation Society's campaign to 'save the whales' (<http://www.seashepherd.org.nz/commentary-and-editorials/2012/11/16/will-you-pledge-900-to-save-a-whale-576>). Individuals donating to support this campaign may well be doing so partly because they feel emotional about whales being killed, and also feel that the Sea Shepherd Conservation Society shares these emotions and concerns. Thus donors' perceptions of the trustworthiness of the Sea Shepherd Conservation Society may be partly influenced by their belief in a shared care and concern for a common goal.

The affective aspect of trust is also linked to the motives of the donor. Such motives include the donor's self-presentational concerns and identity-related needs (Long 1976; Satow 1975). Thus giving to causes which the individual feels emotional connected to, potentially allows an individual to experience a number of psychological rewards (Ribar and Wilhelm 2002). Bekkers (2010) suggests that the gaining of these psychological rewards from donating may in part be related to the *distance* between the individual and the charity, with donors likely to gain more psychological rewards from donating to a charity which is showing care and concern for *local* issues, compared to a charity which may be working on the same issues, but in some other, comparatively remote part of the world ('charity begins at home').

Charities are somewhat limited in their ability to manipulate the affective aspect of trust development. There are two key issues. First, a charity is likely to have a set focus or set of objectives, and these will determine the primary domain to which the charity is indicating care and concern. At the same time a segment of the population (more or less depending on the specific domain) will share these cares and concerns. The primary step which a charity should take is to ensure that its focus or objectives are clearly stated so that like-minded individuals can develop an affect-based trust relationship with the charity, and based on this, support the charity's work through donations (see [Sect. 4.3.2](#) on search initiation).

### ***1.1.3 Personality: Trust Disposition***

The preceding sections outlined cognitive and affect-based trust processes which a charity has some ability to influence through the provision of appropriate information. The development of trust in a charity is, however, also influenced by a donor's personality. This *dispositional* aspect of trust is an individual difference variable where people have more or less propensity to be trusting. Rotter (1971, 1980) proposed that dispositional trust develops from early trust-related experiences which form into a generalized belief about other people (and organizations). These beliefs gradually form a generalized expectation of the trustworthiness of others which develop into a relatively stable personality trait.

Several studies have shown that dispositional trust (sometimes referred to as *generalized trust*—see Evers and Gesthuizen 2011) is positively related to donating. Bekkers (2003) found this result in the Netherlands, while Brown and Ferris (2007) demonstrated it in a sample of Americans. Evers and Gesthuizen (2011) used data from the European Social Survey 2002, which included over 33,000 participants living in 19 European countries and the USA, to examine the relationship between dispositional trust and donating. Their results also showed a positive impact of dispositional trust on donating. The relationship between having a trusting disposition and donating might be explained through reference to the *efficacy* driver of philanthropic behaviour discussed by Bekkers and Wiepking (2011a, b). Here, trusting individuals may be more likely to assume that their donation will really make a difference to the cause they have supported, and this will occur because the intermediary (the charity) can be trusted to do their work.

Dispositional trust is not a variable which a charity can control or manage. However, the fact that dispositional trust will vary across individuals in a population, and will have a roughly normal distribution where some people are very trusting and others are very untrusting (sceptical) is an important issue for charities to understand. Charities need to realize that it may be difficult to develop a trust relationship with a segment of the population, this being those disposed to be untrusting. That is, for some individuals, their general disposition is towards not being trusting, and this has to be handled carefully. Furthermore, the same population segment may be very susceptible to trust decreasing or violating events. [Chapter 5](#) provides a discussion of strategies which can be used to deal with trust violation events.

### ***1.1.4 Societal Trust***

In a similar fashion to the individual differences in dispositional trust, groups of people (typically defined by cultural or nationality parameters) are also known to vary in their propensity to trust. This has been termed *societal trust* and is influenced by an individual's dispositional trust level and by their collective experience with both public and private institutions. Thus societal trust refers to the general level of trust in a population for institutions, and for their fellow citizens. There is substantial research evidence that internationally societal trust, for both public and private institutions, is steadily declining (e.g. Nye et al. 1997). Somewhat in contrast to this general trend, a decline in societal trust specifically towards charitable organizations is *not* supported by the available evidence (O'Neill 2009). Societal trust does, however, have implications for charities in that it partly defines the baseline from which a charity must attempt to build a trust relationship with their donor population. In a non-trusting or sceptical society, a charity is faced with an appreciably harder job of convincing the public that they can be trusted. Furthermore, as societal trust declines over time (a trend which is likely to continue, and which may spread to the charity sector), charities may need to work even harder to develop and maintain their trust relationship with donors.

### ***1.1.5 Category-Based Trust***

The somewhat contrasting findings between Nye et al. (1997) conclusions on the general decline of societal trust, and O'Neill's (2009) conclusion that this decline had not, at the time they conducted their study, extended to charities, may be partly explained by the concept of category-based trust. Kramer (1999) provides a useful discussion of category-based trust. Although the paper does not link this concept with the charity sector, it clearly can be linked. Category-based trust is predicated on information regarding a trustee's (charity's) membership in an organizational or sector category. In the case of charities, *category* can be defined at two levels. The superordinate level is simply having the status of a charity which, as noted, is in many countries a legally determined category. At the subordinate level a charity's category will be defined by the type of charity work they perform. A link between categorization of charities and trust can be found in a number of places. For example, the Charity Navigator site (<http://www.charitynavigator.org/>) uses a categorization system to present its evaluations of charity efficiency, and O'Neil (2009) discusses survey data on trust and confidence perceptions for various charity categories. A charity needs to understand that it belongs to a category, and that events occurring within their category will have an impact on their ability to maintain a trust relationship with their donors (see [Chap. 5](#)).

Categorization occurs through basic cognitive processes which humans use to understand the world. Cognitive psychology provides a solid research foundation

which has demonstrated that individuals learn the features of entities which define category membership (Rosch 1977; Rosch and Lloyd 1978). The combination of these features defines the category prototypical entity, the typical features of members of a category. Of course members of a category will vary somewhat in terms of how closely their features match their categories prototypical entity. What this means is that not all charities working in the same domain are the same, yet at a categorical level they are all defined as the same. Section 5.2 discusses research which has examined media reports of charities, how negative press articles about issues such as mismanagement and fraud within the charity sector will be incorporated into prototypical knowledge of charity categories (see Sect. 5.4), and how a trust development strategy needs to take this into consideration.

Category-based trust is clearly risky for a donor. Category-based trust is a form of depersonalized trust, based on assumptions about a charity's trustworthiness because it belongs to a specific category, rather than specific knowledge about a charity. However, category-based trust can form a base level of trust which a charity can build on. If a charity engages with trust building processes, and identifies and communicates its unique category features, this should allow their donor population to build on this base level of category-based trust using *history-dependent processes*. Provision of history-dependent information, should allow donors to understand and assess a charity's unique features, and reasons why it might be trusted beyond the level of trust which is normally attributable to a typical member of the category.

## 1.2 Specific Contextual Influences on Trust

Up to this point, the discussion of the foundations of trust has focused on general factors associated more or less with the donor and with the charity. While these factors (or processes) are central to the development of trust and trustworthiness, there is a third component which is the specific context or domain over which trust is conferred. Relevant to the current discussion of trust and donating there are two key contextual aspects to donors' trust. First is the medium which a charity uses in its attempts to solicit donations. This can range from an individual approaching people on the street, to a webpage link (donation button) placed within an Internet site. The second contextual consideration relates to the specific act or behaviour which the donor is *trusting* the charity to perform or deliver with their donated funds. Chapter 3 discusses how a charity's use of donated funds can influence donor trust. It is also important to note that donors can trust charities in other ways, such as to uphold religious beliefs, enter countries where disease or war could place volunteers at risk, etc. The remainder of this chapter examines several aspects of trust development which are specifically associated with the medium (or process) which a charity uses to solicit donations: *role-based trust*, *rule-based trust*, *system-dependent trust* and with how donations are used which is termed *transactional trust*.

### ***1.2.1 Role and Rule-Based Trust***

Role-based trust develops from an expectation about a role, rather than the person in the role (Kramer 1999). It may be applied to the charity context in situations where a collector solicits donations directly from the public. The public, or a donor, generally has no knowledge of an individual undertaking the collector role, but they may attribute role-based trust to the collector (individual), based on their generalized trust for the role in question. Role-based trust is functionally useful as it facilitates cooperation, in this case donations, even in the absence of the necessary information for the development of trust in the person performing the role. That is we would normally be reluctant to give money to a total stranger, but knowledge that a person is performing a role can overcome this reluctance. It seems that little, if any research, has examined role-based trust within the donating framework.

Role-based trust is partly influenced by rule-based trust processes. Rule-based trust is predicated not on specific knowledge of a charity (or individual) nor on carefully considered decisions, but rather is based on an understanding of the system of rules regarding appropriate behaviour within a society (Fine and Holyfield 1996). A useful example of rule-based trust is the trust we place in other drivers to follow the road rules. While we know nothing about the driver of a car approaching a stop sign, we trust them to follow the driving rules and actually stop. Apart from the possibility that rule-based trust influences the trust we place in the role of a donation collector, one might consider that there are other (unwritten) philanthropic rules. The most basic of these rules is perhaps: 'I (donor) give you (charity) money and you do something good with it'. Such a rule is perhaps at the very fundamental beginning of the trust relationship between donors and charities, and is discussed further in [Chap. 3](#) and in [Sect. 1.2.2](#) on transactional trust below.

Role-based and rule-based trust are clearly risky for a donor as they attribute trustworthiness to an individual because they are performing a specific role, rather than based on specific knowledge about the individual. There are perhaps two important aspects to role-based trust which a charity that is using individuals to solicit donations should understand, and utilize. The first is simply to identify that the individual is performing the role using appropriate identification tags. This allows role-based trust to come into play. Second, a charity should attempt to ensure that individuals given the role of *collector* are indeed trustworthy, and will abide by the basic philanthropic rules that apply to the role. The latter strategy will help maintain the charity's role-based trust reputation.

### ***1.2.2 Transactional Trust and Web-Based Donating***

Two aspects of trust development that are associated with a charity's use of an online environment to generate donations have been given significant attention: *system-dependent trust* and *transactional trust* (note that transactional trust applies to all

forms of donating). Scholars have long predicted that the Internet would play a significant role in philanthropy (e.g. Bennett 2009; Olsen et al. 2001; Powell 2005), and these predictions are now supported with thousands of charities operating websites, with most offering an online donating option. The statistics for online donating and online behaviour show a continuing increase in the importance of the online platform for charities. For example, online donations through the UK Charities Aid Foundation increased from £65.5 million in 2002 to £325.6 million in 2006 (see <http://www.afpnet.org/Audiences/ReportsResearchDetail.cfm?ItemNumber=3114>); the average value of online donations is higher than for offline donations (NFG 2006); online donating is useful for obtaining donation from the under 35s (Hall 2000); vast sums are often donated online immediately following a significant natural disaster (Gomes and Knowles 2001); and the number of people with access to the Internet is growing steadily (White and Selwyn 2013).

Developing in parallel with the increased presences of charities on the Internet is the research literature on charity website design (e.g. Burt and Dunham 2009; Burt and Gibbons 2011; Burt and Williams 2013; Fox and Carr 2000; Goatman and Lewis 2007; Gueguen and Jacob 2001; McWha and Carr 2009; Powell 2005; Richard 2008; Sargeant 2001; Sargeant et al. 2007; Waters 2007; Wenham et al. 2003). A key focus of this research literature and also of the e-commerce literature in general (e.g. Grabner-Krauter and Kaluscha 2003; Hoffman et al. 1998; Wang and Emurian 2005) is the emphasis on developing user trust. In the case of charities, the user is a potential donor. Two features, system-dependent trust, and transactional trust, have been discussed extensively.

### ***1.2.3 System-Dependent Trust***

The first trust-related issue which a charity faces in their attempt to generate donations using an online platform is the users trust in the security of the operating system and its transactional features. Research often refers to this as system-dependent trust, and has found that it is related to the specific features of the technological system which is being used for the exchange of information and money (e.g. Cho 2006; Grabner-Krauter and Kaluscha 2003; Lee et al. 2005; Sillence et al. 2006; Wang and Emurian 2005). While the majority of research on system-dependent trust has been concerned with e-commerce in general, a few studies have examined it within the context of donating. For example, Shier and Handy (2012) found that trust in the particular online platform was a significant factor predicting willingness to donate online, whereas trust in the Internet in general was not a significant predictor. Thus, any uncertainty surrounding the technology, such as technological errors or security gaps, associated with a charity's online donating framework, may reduce the users trust in the system and decrease their likelihood of using the system to make a donation.

A key trust management strategy is to ensure that when setting up an online donating platform all possible steps are taken to reduce user uncertainty through

methods such as facilitating encrypted transactions, installing firewalls and utilizing authentication mechanisms (Pavlou 2003). To this end, the ePhilanthropy Foundation, now part of the Network for Good (see <http://www.fundraising123.org/web-site-101>) offers numerous recommendations for website design, including tips to help ensure that users trust a charity's website: *Publish privacy information on the website; Constantly review security and use of confidential data; Allow user to control the information collected about them, including removing information; Respond promptly to complaints and all forms of electronic communication; and Seek a trusted website certification from a well-known privacy trust marks such as Truste (see <http://www.truste.com/products-and-services/enterprise-privacy/TRUSTed-websites>) or BBB Online (see <http://www.bbb.org/us/bbb-online-business/>)*. While issues of system-dependent trust are still important, donors' concern about system security has probably declined somewhat over recent years, as populations increase their use of the Internet to purchase a wide variety of goods and services, and engage in online banking activities (White and Selwyn 2013).

### ***1.2.4 Transactional Trust***

Making a donation essentially sets in motion a transaction. The money is given with a rule-based expectation that it will be used (more or less) for the purpose for which it was donated. A more in-depth discussion of the *more or less issue* associated with the use of a donation is provided in [Chap. 3](#). For now, it is sufficient to assume that the transactional aspect of donating is associated with trust development. Transactional trust encompasses an individual's level of *certainty* in the transaction and how they expect others involved in the transaction to behave (Wang and Emurian 2005; Grabner-Krauter and Kaluscha 2003). The significance of transactional trust has been noted by a number of scholars (e.g. Drucker 1990; Kotler and Andreasen 1991; Bruce 1994; Mullin 1995; Speckbacher 2008; Sumption 1995; Sargeant and Lee 2004). It clearly is a key factor associated with giving.

In general, a donation can be characterized as a gift which is devoid of any legal rights for the donor to be told what has happened to their money (Bekkers 2003). While donors have no legal right to know what happens to their donation (their money), providing donors with such information (what will happen to their donation or what has happened to donations in the past) can go a long way towards facilitating transactional trust, and ensuring that donors remain part of a charity's donor population. In the absence of the information necessary for the development of transactional trust, a donor is giving, somewhat blindly, to the charity, rather than giving for a specific and known outcome. Transactional trust plays a part in everyday of our life, and as such it becomes a rather 'normal' and expected aspect of interactions which involve some sort of exchange relationship. For example, when we buy lunch from a cafeteria we are placing trust in the vendor to deliver the lunch we are expecting. In this typical everyday transaction, the individual



receives feedback in exchange for their expenditure in that they consume the lunch they brought and this either confirms or undermines their trust in the vendor.

In contrast to the normal everyday transactions we make, donors face a unique situation in that they have a limited ability to monitor or control the transaction partner (the charity). While transactional trust is likely to be influenced by the charity's reputation or brand, and the idea of 'aid branding' is being developed in the literature (see MacLachlan et al. 2010), it can be more specifically developed if a charity gives attention to donors' need to know what is happening to their donation. The following chapters, all to varying degrees, explore issues associated with transactional trust. The public's principle option, if they think the transactional contract has been breached or they are unsure about the charity's transactional behaviour, is to lose trust in the charity and not to donate again.

### 1.3 Summary

Trust is a motivating factor for philanthropic behaviour. Numerous studies have found an association between donors' trust in a charity (perceptions of its trustworthiness) and donating behaviour. The core foundation of trust is the rationale consideration of attributes, or what has been described as cognitive trust. However, this chapter also identified a number of other foundations of trust development and each is likely to play some part in the public's perception of a charity's trustworthiness. Dispositional trust and societal trust are likely to influence an individual's development of trust in a wide range of persons, organizations and entities, and form what might be called an individual's trust baseline. An individual that is, by disposition, trusting, and who lives in a trusting society, is perhaps more likely to be trusting of charity organizations. Of course a charity would like to have a large donor base, thus their approach to developing a trust relationship with the public can not only focus on those predisposed to be trusting. Convincing the sceptical has the potential to increase a charity's donor population.

This chapter also discussed a number of contextual aspects of trust development which are able, more or less, to be managed by a charity. These included category-based trust, rule-based trust, role-based trust, system-dependent trust and transactional trust. A charity needs to identify how each of these contextual determinants of trust relates to their specific situation, and/or activities. With the growing development of online donating, there is the potential for charities to use their online platform as the primary trust development tool. It is perhaps easier than it ever has been for a charity to fine tune its information delivery so as to maximize the chances of developing a trust relationship with the public, and in doing so increasing its donor population.

## Chapter 2

# Understanding Donors' Trust in your Charity

Donors are often the core providers of financial resources for a charity. Without donor support, some charities are likely to quickly struggle to function, and are likely to enter a path of decline. As discussed in [Chap. 1](#), a key issue associated with a donor's sustained support for a charity is their degree of trust in the specific charity, and in the charity sector, in general. Thus, it is very important for a charity to be able to measure and monitor donor trust. Without up-to-date information on donor's trust towards the charity, and towards *giving* in general, a fundraising manager has little ability to predict future donation income, to predict the charity's ability to respond to beneficiaries needs, or to evaluate the effectiveness of their trust development strategy.

Measuring donor trust at regular intervals, or on an ongoing basis, will allow a charity to track how its behaviour, events in the wider context and the charity's attempts to communicate with donors is impacting on trust. There is of course a need to invest time into the trust measurement and evaluation process. Furthermore, a degree of expertise is needed to develop the measurement strategy, and to analyse the results. However, as discussed below, there are a number of measurement options and some of these are easily incorporated into a fundraising process. A charity that has a fundraising manager could easily build a trust evaluation role into their job description. Other charities which use a third party to undertake their fundraising work could request that strategies are used which provide information on donor trust.

The literature offers a number of perspectives which can help inform a charity about how they can monitor donor trust. In this chapter, a number of perspectives are described and their advantages and limitations outlined. The chapter begins with some less sensitive approaches to understanding donor trust, which at best will give a charity but a rough guide as to the possible level of trust in their donor population. These are followed by somewhat more sensitive analysis approaches. The chapter concludes with a discussion of a donation process which a charity can implement, and which has the potential to provide reasonably sensitive information on donors' transactional trust.

## 2.1 Measurement of Trust

Before examining perspectives on the measurement or assessment of donor trust, it is important to briefly comment on different types of donor. The major part of this book is concerned with donors from the general public, individuals that donate relatively small amounts of money, perhaps at irregular intervals. Of course there are donors that donate very large sums of money, and trust is equally important for them. However, such donors are very likely to have a close, almost personal relationship with the charity, or with a fundraising manager. Part of this relationship will involve the development of a trusting relationship between the donor and the charity. It should be apparent, as part of this relationship development, how much trust such donors have in the charity. Furthermore, the techniques described in the remainder of this chapter have limited applicability to the evaluation of the trust of a single large donor in a charity.

### *2.1.1 Option 1: Implicit Feedback from Donor Behaviour*

Trust (or a decline in trust) should be evident in the behaviour of donors (Bowman 2004), and as such an attempt could be made to monitor donor behaviour as a way of measuring trust. Some of the behavioural components which may be indicative of trust form the basis for the factors of Sargeant and Lee (2004) trust scale, which is discussed below in [Sect. 2.1.3](#). One clear signal to a charity that there may be an issue with donor trust is if the number of donors contributing to fundraising attempts begins to decline. To a somewhat lesser extent, a decline in the total returns from fundraising efforts may also be indicative of trust issues in the donor population. However, trust may be more strongly associated with the decision to, or not to, donate, rather than the size of the donation made. Clearly, there may be other reasons behind a decline in the size of donations, for instance, the global financial crisis has reduced household incomes. On the other hand, the association found between donor trust and donating, make it highly likely that a decline in trust could be at least partly behind a decline in returns from fundraising attempts.

Monitoring trust through an analysis of fundraising returns needs to use the '*donor compliance rate*', as the key indicator of trust. That is how many of the people asked to donate did in fact donate. As the compliance rate increases, it might be reasonable to assume that the donor population in question is more trusting of the charity. Charities have some ability to monitor compliance rates when they conduct street appeals, or when they engage in a direct-mailing campaign. For example, if 10,000 letters are sent and 1,000 donations are received, the compliance rate is 10 %. Similarly, for online donating, it may be possible to compare the total website visits to the number of visits when a donation was made. Of course, there will be a degree of error in the compliance rate data: some mail never reaches the intended recipient, some website visits are done in error.

Unfortunately, examining compliance rates as a gauge of donor trust really only provides for a reactive response. That is, if such an analysis of compliance rate data suggests that trust has declined, it may take some time to put a strategy in place to ensure its recovery. In contrast, some of the trust evaluation options outlined below may ensure that circumstances which could adversely influence donor trust, and donor trust itself, are identified before any fundraising programme is undertaken. These techniques should allow a more proactive approach to donor trust evaluation which might help to ensure ongoing fundraising success.

### ***2.1.2 Option 2: Longitudinal Survey Data on Charity Sector Trust***

There are number of sources of national survey data which have taken repeated measures of various populations' trust in the charity sector. O'Neill (2009) provides a useful summary of a number of these data sets, including results from seven national surveys sponsored by the Independent Sector in America between 1988 and 2001. The results of similar surveys conducted in other countries can be found on various websites, for example the United Kingdom Charity Commission website [http://www.charity-commission.gov.uk/About\\_us/About\\_charities/ptc\\_survey\\_index.aspx](http://www.charity-commission.gov.uk/About_us/About_charities/ptc_survey_index.aspx), and for New Zealand at <http://www.charities.govt.nz/assets/docs/reports/empathy-2010-insight-report-public-trust-and-confidence.pdf>. Results from these works are perhaps best interpreted as showing trends in trust towards a charity sector over time (what was termed *category based trust* in [Chap. 1](#)), rather than the public's trust or a donor populations' trust, as it relates to a specific charity.

The usefulness for a specific charity of such representations of the public's trust, either at a point in time or as a trend over time, is defined by how representative the research sample is of a charity's donor population, and how typical the charity is of the types of charities for which the survey data were collected. Despite this, national survey data may be useful for understanding the public's general attitude (trust) towards a charity sector, or a category of charities. Examination of the results of these surveys may indicate to a fundraising manager whether there is a need to increase their attempts to build and/or maintain their trustworthiness in the minds of their donors. That is, if such data indicate that category-based trust is declining for the category of charity which they belong to, a charity would need to work even harder to develop and maintain the public's perception of its trustworthiness. Such a decline in trust may occur in the aftermath of fraud or a scandal in a charity sector. [Chapter 5](#) discusses in detail how such events impact on donor trust, and ways to manage their effects.

### ***2.1.3 Option 3: Surveying Donor Populations with Trust Measures***

In addition to the information which national surveys on charity sector trust may provide, a charity could from time to time undertake their own survey of a sample of their donor population. Such a survey would ask donors directly, using questions such as *Do you trust ...*, or preferably use a scale to measure trust such as that developed by Sargeant and Lee (2004). Undertaking such a survey will provide data which is much more idiosyncratic to the charity. This type of psychometric measurement of trust is often used in the broader organizational research on trust. Gillespie (2012), while not writing in relation to charity organizations, does provide a useful discussion of a number of issues associated with measuring trust in organizational contexts.

While a degree of caution is required in interpreting self-report data (an issue discussed in detail in [Sect. 2.1.5](#)), the development of self-report scales that measure donor trust has indicated a number of key indicators of donor trust. The work of Sargeant and Lee (2004) in particular identified that trust can be indicated by at least four factors: Donor relationship investment (*I read all the materials ... sends to me*); Mutual influence (*I share the views espoused by ...*); Forbearance of opportunism (*I am very loyal to ...*) and Communication acceptance (*I look forward to receiving communication from....*). Positive, or agree, responses to the items which were developed to measure these factors (examples shown in brackets above) would, with the caution of possible social desirability responding, be indicative of a degree of trustworthiness in the charity by the respondent. Furthermore, each of the scale factors relates to aspects of the charities behaviour, and a low score on any particular factor could be informative. For example, if respondents give low ratings for items for the communication acceptance factor, this could indicate that the charity needs to examine closely the nature of its communication with donors. As noted in [Chap. 1](#), donor's trust can be developed by providing relevant information which builds a history-dependent relationship with donors. Put simply, do not keep sending donors the same information.

### ***2.1.4 Option 4: Surveying Donor Populations on Acceptable Donation Use***

As noted in [Chap. 1](#), transactional trust is a key aspect of donor trust. In its simplest form transactional trust is centred around how each donated dollar is used, and in particular the division of each dollar into the various cost lines of the charity. Several studies have examined what donors think is the acceptable general allocation between administration costs and moneys going directly to the charities primary services (e.g. Harvey and McCrohen 1988; Warwick 1994). A charity can use this information, in conjunction with their own breakdown of donation use, to

judge how their use of donated funds may be influencing their donor's trust in the charity. In this case the evaluation is of the likely impact of the charity's financial operation on transactional trust.

If such an analysis is undertaken it is important to ensure that the survey data which is used in the analysis was collected from a population which is representative of the charity's donor population. Warwick (1994) reported that individuals appear to consider a ratio between administration costs and service expenditure of 20:80 to be acceptable (20 % of every dollar can be used for administration costs). Similarly, research conducted for the BBB Wise Alliance in America found that 60 % of respondents thought that 20 % was an acceptable proportion of funds to spend on administration (Princeton Survey Research Associates 2001). Harvey and McCrohen (1988) using data from approximately 5,000 individuals from 22 American cities reported a lower ratio of 40:60, and also reported that charities that spent at least 60 % of funds on services achieved significantly higher levels of donation.

A survey of 812 Dutch persons (Research and Marketing 2002) asked respondents what they thought was an acceptable split of donated funds, and the average answer was that around 17 % was appropriate to use for administration costs. Respondents were also asked to estimate the percentage of total donor contributions actually spent on the charity cause. The sample indicated that on average around 43 % of donations did not reach the cause. Clearly, the difference between the two values is reasonably substantial, and may be undermining transactional trust. Furthermore, Bekkers (2003) report that the actual cost of charity administration in Holland is somewhere close to 13 %, thus the sample estimate of administration costs is substantially greater than reality. These results also point to the importance of communicating information to donors, a topic examined in detail in [Chap. 4](#).

The general, or average, pattern across the studies cited above is that somewhere around 20 % seems to be a value which might be universally accepted by the public as an appropriate proportion of funds to spend on administration. In order to get a perspective on donor trust a charity could compare their spending (use) of donations against this value. If there is little difference between actual spending and the 20 % value (and assuming donors know this) it may be reasonable to assume that the charity's current transactional situation is unlikely to be adversely influencing donor trust. Of course, there are some rather big generalizations here, and many factors may make it difficult for a charity to operate within the 20 % mark. The administration component of a charity's expenditure will vary considerably depending on the specific characteristics of the charity (e.g. local, national, international), and the size and age of the charity organization (see Bowman 2006 for a useful discussion of these influencing factors). If such factors are increasing a charity's administration expenditure, they should be communicated to donors as part of their trust development strategy.

### 2.1.5 Issues for Options 1–4: Distortions in Survey Data

The approaches noted so far all rely, to some extent, on self-report data from donors. Surveying donors about giving and trust issues runs the risk of producing distorted information due to the social desirability of responding positively to such questions. Donors may feel they need to report a higher level of trust than they truly may hold, and the reported trust level may have a somewhat limited relationship with their actual trust. Similarly, donors may report somewhat bias information on how charities can use their donations. While such bias can be found across a wide spectrum of cross-sectional survey data, it is also clear that biasing factors apply to data on charitable giving and related issues (e.g. Bekker and Wiepkink 2011c; Burt and Popple 1998; Slack 2008; Wilhelm 2007). There are a number of reasons that bias may enter into an individual's responses to a survey on donation use or charity trust issues.

Individual's responses to charity related questions may be influenced by social desirability bias (see Lee and Woodliffe 2010 for a useful review). Crowne and Marlowe (1960) describe the motives behind social desirability responding as 'the need of subjects to obtain approval by responding in a culturally appropriate and acceptable manner' (p.353). For example, when asked about their *giving*, individuals may overestimate in an attempt to look good, or appear more altruistic than they actually are (Hall 2001; Paulhus 2002). Social desirability is also likely to influence responses to attitudinal questions, such as those attempting to gauge individuals trust in a charity or in a charity sector, or gauge acceptable donation use. Fundraising managers examining donor survey data, or requesting a survey of a donor population on trust issues, should either look for evidence that social desirability responding has been examined, or request that measures of social desirability are included in the survey work. Lee and Woodliffe (2010) provide a useful discussion of social desirability scale options, and Lee and Sargeant (2011) have developed and validated a multi-dimensional social desirability scale specifically for use in *giving* surveys. While the use of social desirability scales will not remove the bias from the responses (unless this is done statistically), their use may give the fundraising manager more confidence in the conclusions they can draw from survey data.

It is also important to note that there are measurement techniques which can be used in an attempt to reduce social desirability responding, such as indirect questioning techniques (Fisher 1993), using face saving questions (Belli et al. 1999) and physically distancing the interviewer from the respondent (Nancarrow et al. 2001). The latter technique is used by default if a survey is conducted online.

Another bias which may pervade survey data, and which is linked to social desirability, is known as impression management, and is defined as a respondent deliberately presenting him or herself in a positive light (Paulhus 1984). Questions on trust may, because trust has a dispositional or personality aspect, prompt a person to impression *manage* how others see them. That is, they may respond in a way which suggests they are more trusting than they actually are, given that some people might assume that being trusting is a positive attribute.

### 2.1.6 Option 5: Comparing Charity Expenditure to Sector Averages

Chapter 1 noted how a charity will belong to a category or charity sector. It is possible to find data on financial aspects of charity sector performance. Such data may allow a charity to compare its financial performance against the average level of performance within its sector, and from this comparison draw conclusions about how their financial activities may be influencing donor's transactional trust. An example of this type of comparison can be found in the literature on the *price of giving*. The data for this type of analysis are collected from financial records and reports, and could be assumed to be accurate (not susceptible to response bias).

The term *price of giving* has been used to define the amount of money needed from donors to obtain one dollar for services. *Price* has been used as a proxy measure for charity efficiency (Tinkelman 1998). Weisbrod and Dominguez (1986) used the formula  $1/(1 - (f + a))$  to define *price*, where, *f* is the percentage of revenue used for fundraising, and *a* is the percentage of revenue used for administration expenses. Research has found that lower *price* (higher charity efficiency—see Chap. 3 which discusses efficiency) is correlated with higher donations (e.g. Callen 1994; Greenlee and Brown 1999; Tinkelman 1998, 1999; Weisbrod and Dominguez 1986). This finding can be interpreted within the transactional trust framework discussed in Chap. 1, where lower price really means that more of donors' money is going to the cause they donated to. As such, a charity's price of giving maybe a useful proxy measure of the public's likely level of trust in the charity (assuming donors have the information).

Sargeant, Lee and Jay (2009) in their analysis of 115 United Kingdom nonprofit organizations found that the average price per £1 of donation was £1.21 (stated in a different way, the organizations sampled were spending on average 21 % of each pound raised on administration costs). The average price figure reported by Sargeant et al. (2009), although in a different currency, is similar to the \$1.28 reported by Chen (2009) from an examination of 730 American-based non-profit organizations. As might be expected, Sargeant, et al., (2009) found significant variation in price values between organizations serving different categories of need. This finding is important, and each charity needs to consider if their specific circumstances make it acceptable for their price value to be higher than their sector/category average.

While the research on the *price of giving* shows what proportions of revenues charities, on average, are using for fundraising and administration costs, it does not directly address the issue of whether donors find this acceptable. However, if a charity determines that its price of giving value is considerably higher than the sector average (without good reasons), they may reasonably assume that this could be adversely influencing donor trust. In contrast, a charity with a price of giving value which is well below its sector average, might reasonably assume that this is likely to be viewed as favourable by donors, and is (if communicated to donors) likely to help maintain donors' perception that the charity is trustworthy.



### 2.1.7 Option 6: Analysing Clickstream Data

Many charities now have a website and this trend is likely to continue. Issues associated with website design, and how they can deliver information to potential donors, are discussed extensively in [Chap. 4](#). However, websites not only provide for communication to donors, but technology is now available which allows for website browsing behaviour to be monitored and analysed using what is termed *clickstream data*. Click stream data allows a site administrator to study how users browse or navigate a website (Bucklin and Sismeiro 2003). While I could not find any research which has used click stream data to analyse donor trust, it does seem that this is at least theoretically possible.

Bucklin and Sismeiro (2003) analysed two forms of browsing behaviour for an automotive industry website: a visitor's decision to continue browsing by clicking for an additional page, and the length of time viewing each page. It is not too hard to imagine how a charity website could be constructed to allow click stream data to reflect donor trust. For example, a website visitor that spends little time on the home page and goes directly (quickly) to the donation page (and makes a donation) may be assumed to be relatively trusting of the charity. Whereas, the proportion of visitors that spend a lot of time on the trust building materials (page), then either go to the donation page or leave the site, may provide further insight into donor or public trust in the charity.

More sophisticated tools for analysing webpage use are appearing on the market. These programmes allow reports to be generated from webpage user data. Farney (2011) provides a useful discussion of 3 such click analytic tools: *Google Analytics' In-page Analytics*, *Clickheat* and *Crazy Egg*. Reports generated by these tools should be interpretable within a trust relationship framework, and should also allow a charity to refine its website design. As an example, it should be possible using *click analytics* to obtain measures of at least two of the behaviours which Sargeant and Lee (2004) identified through the development of their charity trust scale: For *donor relationship investment (I read all the materials ... sends to me)* click analytics should be able to objectively measure users reading of new posts on a website, and for *communication acceptance (I look forward to receiving communication from....)* click analytics can measure the time between posting information and user reading.

As noted above, there does not appear to be any published research on charities use of click stream data. Collecting click stream data is likely to be relatively straight forward. The interpretation of such data does, however, require the assumption that certain data patterns can reflect donor trust. Research is required to substantiate these assumptions. Until such research is conducted, it is only possible to speculate how useful click stream data may be for the evaluation of donor trust. However, click stream data does have the advantage of providing objective measures of donors' online behaviour, thus avoiding biases associated with self-report data.

Which brings us to a nub of this chapter.

### ***2.1.8 Option 7: Donor Specified Donation-Splitting and Comparison with Actual Donation Use***

Clearly, the approaches outlined above have a number of limitations, or require a number of assumptions to be made, or are largely untested. The last approach to be discussed in this chapter perhaps overcomes a number of these problems. The technique is labelled *donation-splitting* (Burt and Williams 2013), and utilizes online technology to allow a charity's donors to donate directly into the cost lines of the charity. That is, in contrast to traditional donating where a sum of money is given and the charity subsequently decides how it is used, donation-splitting allows donors to donate to specific uses. For example, they can donate some money towards the charity's administration costs, and some directly to fund the cause related work which the charity performs. The donation-splitting approach provides a number of useful results which can be used by a charity to evaluate its donors' likely level of transactional trust. Furthermore, the donation-splitting procedure give donors substantial control over the use of their donation, and as such the donation-splitting procedure can not only be used to evaluate trust, but is in its self a trust building strategy. Thus, the two key features of the donation-splitting approach is its potential to both enhance donor trust, and provide data which allows for an assessment of how the charity's financial management activities might be impacting on donor trust. The technique does not directly measure donor trust, in the form of asking the question, and as such the data it produces are not susceptible to social desirability issues.

In the vast majority of donating situations, money is simply given (e.g. money is placed into a bucket or donation box, or an amount is entered into a form online), and the charity has total control over how the donation is used. In contrast, the donation-splitting approach (which is ideally suited to online donating, but could be used in direct-mail campaigns) gives a donor a number of donation options or a number of boxes in which they can enter a donation. The boxes are clearly labelled, indicating what the donation will be used for. Thus, rather than a donation being received and divided up for administration costs, fundraising costs and service deliver by the charity, the donor gets to make the division decision. [Chapter 1](#) discussed the importance of issues around transactional trust, and the key aspect is how donations are used or divided for use in different cost lines.

Burt and Williams (2013) tested the idea of donation-splitting in two experiments. A website was developed using a well known New Zealand charity, and participants were given the opportunity to interact with the website and to donate to the charity, if they wished (actual monetary donations were made). In one condition of Experiment 1 (and in both

conditions of Experiment 2), participants who decided to donate were given the ability to split their donation: to donate to *administration costs*, to donate to the charities *services* or to a combination of both. The donation split was achieved by listing on the donation page several labelled boxes. Entering an amount into a box automatically summed the total donation box at the bottom of the page. Across the two experiments, approximately 32 % of the donating participants split their donation into a proportion to administration and proportion for the charity's services. *Thus, both experiments clearly demonstrate the feasibility of the donation-splitting technique.*

The donation-splitting technique provides donors with the foundations for transactional trust development, or more specifically it allows a donor to determine how their donation is going to be spent (used). This provision for donors', with a degree of control addresses one of the fundamental issues which donors have with charities. While Burt and Williams (2013) did not attempt to determine if the introduction of the donation-splitting option had a positive effect on donor trust, other research supports this prediction. For example, the *third-party gifting* approach to giving involves a charity offering a range of purchase options, such as a goat, which a donor can purchase (see Kemp et al. 2011 for research on this method of donating). Like the donation-splitting approach, third-party gifting does have the value of providing the donor with a degree of certainty about, and control over, how their donation is going to be used. Furthermore, the certainty in the end use of their donation which the third-party gifting approach generates significantly increased donors trust that the beneficiary would receive the donation, when compared with the certainty of end use associated with making a monetary donation (Kemp et al. 2011).

The donation-splitting approach also generates valuable information for the charity which can be used to evaluate donors' transactional trust. The proportions donated to various cost lines can be compared directly with the charity's actual operating expenditure within each cost line, and conclusions about the influence of expenditure on donor trust can be drawn. For example, in Experiment 1 of Burt and Williams (2013) study, participants donated on average 11.1 % of their donation towards administration costs. The charity that was used for the research provided the researchers with financial information, which indicated that they were spending 15.6 % of their donation income on administration costs. Comparison of the two percentage values allows for conclusions about transactional trust. Given that the two percentage values noted above are reasonably close, the charity could justifiably conclude that their spending on administration should be unlikely to be having a significant negative impact on donor trust. In fact, it would be reasonable to conclude that for this particular charity, *its division of donations might be likely to facilitate the development of transactional trust.*

It is important to note that the donation-splitting technique will generate information which is idiosyncratic to the donor sample and the charity in

question. Thus, the results above are essentially meaningless for another charity. It is possible that a charity may need to use a large proportion of donations to cover administration costs of the organization (perhaps if it operates in a global, rather than just a local context). It is also possible, in fact desirable, that donors understand the complexity and extent of administration costs. If they do, and agree they are justified, their donation-splitting may produce a percentage split which is greater than the 11.1 percent found by Burt and Williams (2013), and which is closer to the charity's actual expenditure. This was found in Experiment 2 of Burt and Williams (2013), where in one condition, participants were told that the charity spent 15.6 % on administration, and the average proportion donated to administration was 15.7 %. The closeness of the two values suggests that the donors (study participants) *were accepting of the charity's financial management and indicated this in their donation-splitting*.

Data from donation-splitting may of course indicate that donors may not feel that a charity should be spending a large percent of donations on administration (even after the provision of 'justification' information about the expenditure). That is, the donation-splitting result indicates a big gap between what donors are willing to give to support administration and what the charity is currently spending on administration. In this case the charity, if they wish to address the implications of this situation for transactional trust, *will have to consider if efficiency gains are possible in order to reduce spending*. [Chapter 3](#) examines the literature which has addressed the need for efficiency improvements in the charity sector.

## 2.2 Summary

This chapter has discussed seven options which a charity can use to evaluate donor trust, and also evaluate the likely impact that charity activities are having on donor trust. The options are probably best used in combination, as opposed to just adopting one or another. The more information which a charity has on trust, the better they will be able to fine tune their trust development strategy.

It appears that using click analytics, which in my view is a very promising option for examining donor trust has until now not been examined by any research. Of course many processes which are not widely researched are in fact used by organizations. Thus is it very possible that some charities are analysing their webpage use. It also appears that not a lot of development work or expense would be involved in setting up a click stream analysis protocol. The feedback that click analytics could provide might allow rapid advances in the understanding of donor trust, as it seems that click analytic measures can be taken to investigate areas which are central to the trust building relationship.

Finally, the feasibility of the donation-splitting technique has been demonstrated, and it is easy to implement. While a charity could introduce it as a permanent feature of its fundraising, this is not essential. It would be quiet appropriate to introduce it from time to time, as a type of sampling technique. If the split proportions remain relatively stable over time, and are relatively consistent with how the charity is managing the financial division of donations, then they may reasonably assume that their donor's transactional trust is currently not an issue for concern.

## Chapter 3

# Improving Charity Efficiency and Accountability in Order to Develop a Foundation to Build Transactional Trust

How a charity uses donations is at the heart of transactional trust development and maintenance. A number of scholars have argued that charities need to address donors transactional trust by being efficient, with the goal of keeping administration and fundraising costs to a minimum, and thus ensuring that as much of donations as possible is used for the cause for which it was donated (e.g. Burt 2012; Ebrahim and Rangan 2010; Ebrahim and Weisband 2007; Gibelman and Gelman 2001; Kearns 1996; Young et al. 1996). The objective of improved efficiency is also consistent with the behavioural principle of ‘harmonization’ (development of coordinated activities between charities) proposed by the Paris Declaration on Aid Effectiveness, (2005) (also see Accra Agenda for Action 2008), and is likely to help with the achievement of the Millennium Development Goals (see Annan 2000).

In its simplest terms, changing a charity’s efficiency is about changing how donated funds are used, with the goal of allowing more of donated funds to reach those for which they were donated. Achievement of this goal has the potential to have a positive impact on donor trust. Of course making efficiency changes will not in itself influence donor trust. For trust development the outcome of efficiency changes needs to be communicated to donors. The effective communication of a charity’s efficiency to its donor population achieves the goal of *accountability* and communication processes are discussed in [Chap. 4](#). This chapter examines arguments put forward by scholars that have championed the idea and benefits of charity efficiency and accountability. Potential risks associated with efficiency and accountability are also examined.

### 3.1 Why Efficiency Influences Transactional Trust

The marketing literature suggests that consumer behavioural intent can be influenced by three transactional components; quality, value and satisfaction (Cronin et al. 2000), and these factors, which influence the perception of *service value*, probably also apply to the relationship between a donor and a charity. Service

value is defined as the trade-off that customers make between what they receive and what they spend (Sweeney et al. 1999). Normally, spending more can influence service value. In the context of charitable giving, while there is basically the same sort of exchange, the service value component is much less clear. That is, a donor that gives more cannot be assured that beneficiaries will receive more, or receive a better quality service. However, the assumption of service value could be made by a donor if the charity is operating efficiently. That is an efficient charity should be able to use a larger proportion of a donation directly for service outputs.

Arguably, an internal examination of a charity's efficiency is a necessary prerequisite step for the development of its trust development strategy. Such an analysis will provide some of the key information which can be communicated to donors. However, a charity should only attempt to develop a transactional trust relationship with its donors if it is indeed worthy of such trust. If an examination of a charity's financial spread sheet shows a less than ideal situation, this primarily being defined by a large percentage of donations going towards costs (see Sects. 2.1.4 and 2.1.6), and there are options for changing this to make the charity more efficient, they should be considered. Efficiency increases should allow a charity to be more charitable, be in a position to do more good work, and be able to deliver on the implied promise it makes to donors when it accepts their money. Furthermore, an efficient charity should be able to maintain donor support through a perception that it is trustworthy.

## 3.2 Measures of Efficiency

For-profit organizations can measure success and efficiency using variables such as costs, profit or return on investment, and can communicate this information back to stakeholders. However, charities face a number of issues when attempting to measure success and efficiency, and these issues have been discussed by a number of scholars (e.g. Bryson 1995; Drucker 1990; Ebrahim and Rangan 2010; Forbes 1998; Oster 1995). Ideally, a charity's measurement attempts should focus on five categories: *inputs*, *activities*, *outputs*, *outcomes* and *impacts* (Ebrahim and Rangan 2010). *Inputs* equate to fundraising, *activities* equate to administration, *outputs* are what the organization is attempting to do, *outcomes* are the success of the outputs and *impacts* are the changes which result from the entire enterprise. Measuring outputs, outcomes and impacts is more difficult, yet an attempt to quantify these operational aspects may provide useful information for the development of a trust building strategy.

Inputs and activity expenditure efficiency has been measured by a number of different calculations, including *price* (as discussed in Sect. 2.1.6), *overhead-ratio* and *fundraising ratio*. The term *overhead-ratio* expresses the relationship between administrative and fundraising expenses and total revenue, and is based on the formula, *summed expenses divided by total revenue*. Clearly, a charity's overhead-ratio is going to justifiably vary across different charities (Rooney et al. 2003),

and as such it is unrealistic to have a specific overhead-ratio which can be applied as the ideal standard to all charities. Yet, and as noted in [Sect. 2.1.4](#), there is a general expectation on the part of donors that a significant proportion of donations are being used to deliver programs and services (an expectation by donors that a charity's overhead-ratio will be low).

It is also important to note that not all scholars agree that overhead-ratios are useful for donors to determine a charity's trustworthiness. In an interesting article, Woods (2006) questioned the value of the public's interest in overhead-ratios. In a similar vein, Steinberg (1991, 1994) has written extensively on the relevance of the *fundraising ratio* (fundraising expense divided by total expenses). From a purely economic analysis perspective it is perhaps hard to argue that overhead and fundraising ratios can be interpreted in a rationale way, and used to make decisions about trustworthiness between charities and/or whether to donate to a charity or not. However, generally donors are unlikely to appreciate a strictly economic analysis of the interpretability of overhead and fundraising ratios. Arguably for most donors, perceptions of trustworthiness partly comes down to two simple questions, *what is happening to my money?*, and *what if any information can I get to answer this question?* To be sure the answer to the first question will be at least partly reflected in overhead and fundraising ratio information.

Bowman (2006) argues that for overhead-ratio information to be useful, donors need to know information about overhead-ratios for all alternative charities. This argument assumes that donors will then make a comparison between charities and subsequently a decision on where to donate. However, this proposition may be a little unrealistic, simply because most donors are unlikely to spend the time necessary to find the information for a selection of charities, let alone attempt to compare it.

In my view it is more likely that the donor has an *acceptable price in mind* (see [Sect. 2.1.4](#)). That is, they do not compare across charities, but compare a charity's price with *their* acceptable standard of expenditure for the specific type of charity in question. Furthermore, as the difference between a charity's actual price, and the individual's acceptable price increases (actual price is greater than acceptable price), their trust in the charity probably declines and as such their willingness to donate to that charity declines. Bowman (2006) did find a relationship between changes in overhead-ratios (price) and changes in giving. This relationship perhaps points to how the communication of price information influences trust, and how this operates in relation to donating.

### 3.3 Risks Associated with the Efficiency Goal

There are risks associated with the efficiency movement in that it could motivate charities to either decrease expenditure on administrative aspects which are really needed, or deliberately attempt to misreport administration expenditure (Krishnan et al. 2006). While both possibilities may be motivated by the goal of retaining



donor support, both could clearly have the opposite outcome. For example, a reduction in essential administrative functions such as training could undermine a charity's ability to deliver acceptable outcomes, while misreporting, if uncovered could damage a charity's reputation. Thus, in the long term, both under funding of essential administrative spending, and particularly attempts to misrepresent fundraising and administrative spending could undermine donor trust, and significantly decrease the likelihood of their support continuing.

### **3.4 Options for Reducing Costs and Increasing Efficiency: Use of the Internet**

Using the Internet as a fundraising tool is likely to significantly reduce fundraising costs (at least after the initial costs of establishing the website). A charity's website can also be a very cost-effective way of communicating with the public and with donors (an issue discussed further in [Chap. 4](#)). However, it is unlikely that the Internet will completely replace traditional forms of communicating or fundraising using direct mail, telephone or personal solicitation (Hart 2002). Furthermore, the Internet may simply not be a viable option for all charities (Marx 2000), due to such issues as size and recognition.

#### ***3.4.1 Professionalizing the Management Structure***

Organizations, including charities, can improve the efficiency of their operations by adopting best practice management strategies. This can occur though the employment of credentialed and experienced staff (Hwang and Powell 2009; Power 1999). Such changes are already evident, and Sawhill and Williamson (2001) found evidence that charities are increasingly using commercial business models in areas such as strategic planning, marketing, finance, information systems and organizational development to improve their effectiveness and efficiency. Unfortunately, it is not always easy for a charity to adopt a more professional management strategy, and Beck et al. (2008) provide a useful discussion of some of the key issues.

Charities are arguably sufficiently unique, compared to for-profit organizations, that applying techniques to make them more efficient is either inappropriate or extremely difficult (e.g. Bozzo 2000; Lindenberg 2001). A number of scholars (e.g. Lewis 2002; McPeak 2001; Sawhill and Williamson 2001) have noted that in general cultural and institutional differences between for-profit firms and charity organizations make it difficult to adopt best practice solutions. Other authors have focused on specific aspects of management, for example Ridder and McCandless (2010) discuss difficulties associated with charities adoption of different human resource management practices. However, despite the apparent difficulties that

charity organizations may have with the adoption of best practice management techniques, there are scholars who have offered guidance (e.g. Akingbola 2013), and there is growing evidence that some charity organizations are attempting to reconfigure their human resource practises in order to become more efficient and effective (e.g. Ridder et al. 2012). Any gains in efficiency, no matter how small or how difficult, are likely to have a positive flow-on effect on donor trust. Thus from a trust perspective, the effort is worthwhile.

### ***3.4.2 Sharing the Costs: Developing Clusters and Sharing Knowledge***

Cost savings and improvements in management practices may be achievable by sharing resources across a number of charities. Within the for-profit domain there is an increasing recondition that cluster polices, for example inter-organizational human resource management practices, can have a positive impact on collective efficiency, employment, organizational performance and economic growth (Carpinetti et al. 2008; Chabault et al. 2012). Clusters formed by geographically concentrated charities may not only benefit through cost savings associated with traditional management functions, but may also benefit through more broad-based innovation and development. An example is the Deal Effect, a joint venture (cluster) between a group of charities in Ireland which helps foster cost-effective development. By combining small contributions from each member charity in the cluster, solutions can be developed and tested, with an associated reduction in expense and risk for each individual charity.

Alternatively, or as well, a charity can attempt to develop its own management strategies, perhaps by allowing external reviews of their systems and practises by peers, other charities or experts in a particular domain (see Purcell and Hawtin 2010 for a useful discussion of a peer-review approach). Of course, bringing in expert help could come at a cost, and in the short term could work against the objective of trying to reduce costs.

### ***3.4.3 Adopting Technological Solutions***

Advances in communication technology, and the ability to acquire, store and distribute data quickly and globally, offers charities potential cost savings. On the other hand, there needs to be care taken to ensure that the cost of the technology does not offset the potential savings. An example of such use of technology is Concern's use of mobile phones to provide farmers in Niger information on crop prices in various markets. Other examples, include Focus's (an Irish charity) award winning Facebook site which helps deliver key information at very little cost to a large group of followers. Social media, such as Facebook, Twitter and You Tube

are where vast numbers of people expect to acquire information, and add to these Blogs and online forums, and the potential for very cost effective, extremely timely and user acceptable communication mediums are available to all charities.

### **3.5 Contextual Influences of Charity Efficiency**

Ideally, a charity would reach a management state where it is operating efficiently, and this information is being communicated to donors. Over time this would build a history-based trust relationship with donors. However, organizations operate in a dynamic environment, and charities are no exception. Events will occur which can interrupt the look of a charity's financial spread sheet. [Section 3.5.1](#) discusses some of these possibilities. The key issue is to ensure that dynamic changes, which are often beyond the control of the charity, do not have a long-term negative impact on donors' transactional trust.

#### ***3.5.1 Dealing with a Donation Spike***

A significant event may prompt a massive inflow of donations. For example, in the aftermath of the September 11, 2001 terrorist attacks on the World Trade Center and Pentagon, an estimated \$110 million was donated online to the Red Cross, Salvation Army and other relief agencies to help victims (Larose 2003). Such a situation may create an output potential which is well beyond the current logistic capabilities of a charity. The charity now faces a dilemma. Should the charity rapidly increase their logistic and administrative base to allow outputs to match the available funds? Or should the funds be used within the current logistic base, and thus used over a much longer time frame? There appears to be a potential negative impact on donor trust with either option. The risk associated with a rapid logistic based increase is that once the crisis (event) has past and the charity has used the funds, it will be faced with a logistic surplus (which will have a cost component) which could adversely influence their *overhead-ratio* (efficiency) into the future. In contrast, adopting the approach of operating within the available logistic base and delivering outputs over an extended period of time could adversely influence donor trust, who may feel that their donations are not being used in a timely manner. There is no easy answer to these dilemmas, and whatever option is taken, it will be important to clearly communicate it to donors in order to minimize any potential negative impact on trust.

### 3.6 Communicating Efficiency to be Accountable

Clearly there are good theoretical arguments to support a call for charity efficiency and accountability. However, the prediction that achieving efficiency goals will influence donor trust (and their donating behaviour) rests on the assumption that the achievement of efficiency and issues associated with efficiency are *communicated* to donors. Furthermore, it is vital that donors actually integrate information about these achievements and issues into their decision-making. [Chapter 4](#) discusses factors associated with communicating with donors.

### 3.7 Summary

Trust needs to be developed on an honest and appropriate foundation. In this chapter, the importance of charity efficiency has been highlighted. For many, if not all donors, it is the way in which a charity uses their donation which is central to their trust in the charity. Unfortunately, the literature on charity efficiency is at least partly prompted by apparent inefficiencies in the charity sector. Media reports of inappropriate donation use, and seemingly excessive proportions of donations being used for purposes other than the delivery of core services do have a flow-on effect on donor trust and a long-term impact on fundraising potential.

Charities are often rather unique organizations, and this can preclude an easy adoption of management approaches which are used in the for-profit sector. However, a number of options which can reduce costs were outlined in this chapter, and of course there will be others which have not been mentioned. If a charity can achieve an efficient operation, and hold costs to an acceptable level, they should communicate this achievement to donors. As is discussed in [Chap. 4](#), donors will appreciate being informed of this achievement, and are likely to adjust their perception of the charity's trustworthiness accordingly.

There will undoubtedly be cases where administrative expenditure will reach a level which could be viewed negatively by the donor public. This level of spending may however be necessary and not the result of inefficiency. Under these circumstances the charity is faced with the task of justifying to donors that the level of expenditure is needed, that it is not reducing programme outputs, but rather is necessary to achieve programme outputs. Such cases may arise from the urgency of delivering relief associated with natural disasters.

Related to urgency, and its associated costs, is the impact that this cost bubble can have in the future. A massive increase in administration costs associated with a large logistical response to a natural disaster half a world away needs to be removed from or identified and isolated in reported expenditure in the future. The cost bubble is context specific—and needs to be clearly indicated as such. Finally, it might be predicted that most donors would agree that in some situations action is required 'at all costs' or 'irrespective of the cost'. The same reasoning does not however, apply to business as usual.

## Chapter 4

# Communication: Delivering Information to Donors

Charities are faced with a number of dilemmas associated with getting information to their donor populations, and to the general population, with the aim of building a trust relationship. The first dilemma is that information dissemination can be expensive, and [Chaps. 1, 2 and 3](#) have already noted the negative impact that excessive administration expenditure can have on donors' trust in a charity. There is also the issue of what information a charity should deliver in order to develop a trust relationship. Finally, there is the question of how to ensure that the public and donors actually see or read information from a charity. This chapter explores each of these issues.

The key assumption for providing donors with information on a charity's activities, and particularly their use of donations, is that donors will develop a favourable attitude towards the charity (see it as trustworthy), and act (donate) based on the information. As noted in the previous chapters, a significant body of research supports the proportions that when fundraising and administration expenditure is acceptable (low) donors will respond by continuing to support (donate to) the charity (e.g. Tinkleman and Mankaney 2007). Thus, there is clearly a need for charities to ensure donors receive information about donation use in a way and form which provides for the functional use of the information by donors. Parsons (2007) found evidence, using field-based and laboratory experiments, that some participants (donors) use both financial and non-financial information for making a giving decision. Thus, it is very important to ensure that communication processes provide the type of information that donors need.

### 4.1 Do Donors and the Public Want Information?

It is easy to find evidence which indicates that the public and donors want information from charities. For example, a survey conducted by the National Council for Voluntary Organizations (NCVO 1998) in the United Kingdom found that 73 % of respondents wanted to know how much (what proportion) of donations were being spent on administration costs. Despite such findings, other research suggests that

donors do not always seek information. For example, a survey of Americans found that only about 33 % of respondents indicated that they actually seek information on charity finances (Princeton Survey Research Associates 2001). Of course this result does not indicate that respondents did not want the information. Rather it perhaps reflects the way information about charities has traditionally been imbedded in documents, and more recently in websites, making it hard to find (Szper and Prahash 2011) and in some cases hard to understand (Sargeant, Lee and Jay 2009).

It would seem reasonable to predict that the more money an individual is thinking of donating, the more the individual may be interested in obtaining information, and the more they may research possible charity options. However, research by Bowman (2006) failed to find conclusive evidence that large donors (\$500 or greater) are more sensitive to information on changes in the *price* of giving (see [Sect. 2.1.6](#) for more on the price of giving). This finding may indicate that large donors may seek information, but the information they find may in some instances not have a vastly different impact on them, compared to the impact it has on individuals that make relatively small donations. That is, trust may be equally important, irrespective of the size of the donation being made.

## 4.2 Donors and the Public's General Knowledge of Charities

It is important to recognize that while donors, and the public, may have a desire for information from a charity, they will already, to varying degrees, have general knowledge about charities. This will particularly be the case for adults, who are also likely to be in an independent financial position, and thus a prospective donor. Individual's general knowledge of charities will have developed via the cognitive processes of categorization and typicality which were discussed in [Chap. 1](#) (see [Sect. 1.1.5](#) on category-based trust). These basic cognitive processes provide for the abstraction of the key features of objects, including charities. These abstracted prototypical features form the basic knowledge structure a person holds about what a charity is, how it behaves and what it might be expected to do. This knowledge is the foundation upon which communication with donors is based, and is the knowledge structure into which new information can be associated. Unfortunately, individual's general knowledge about charities (their prototypical knowledge structure) will contain information relating to the fact that charity fraud, mismanagement and inappropriate use of funds does occur (e.g. Hale 2007; McDonald and Scaife 2011; Therkelsen 2011, see [Sect. 5.2](#) for a more detailed discussion of this research). How communication can address the occurrence of trust violating events is discussed in detail in [Chap. 5](#). For now, it is important to note that not every person is going to be unquestioningly accepting of everything which a charity has to say.

Individual's general knowledge about charities, and of course the societal trust level (see [Sect. 1.1.4](#)) in the particular location where the charity operates, form the platform upon which communication will occur. Another way of thinking about these issues is that a charity might rightly assume that the audience they are attempting to communicate with (to attract to donate or to enter their donor population) is likely to be somewhat sceptical and untrusting about charities in general. Assuming otherwise would be a mistake. Thus, a charity needs a communication strategy which is clearly aimed at a somewhat sceptical and untrusting audience. Of course a segment of the population, are by nature trusting (see [Sect. 1.1.3](#) on dispositional trust), and arguably it will be easier to build a trust relationship with these individuals.

Finally, findings in the marketing research literature suggest that the extent to which donors are receptive to communication from a charity may be indicative of their trust in the charity (Moorman et al. 1993). That is, without a degree of trust, donors may simply not engage at all with communication attempts by a charity, making it very difficult for a charity to cultivate a trusting relationship with donors, particularly the more sceptical segment of the population. This is somewhat of a chicken and egg problem. If donors need to be trusting to accept, or engage with communication from a charity, and that communication is aimed at building the foundations for a trust relationship, where is the entry point? Perhaps the key is to ensure that any and all communication has the potential to add to the development of trust.

### 4.3 Communication Objectives

The previous discussion in this chapter, and a number of key points from [Chap. 1](#) can be used to form the objectives of a trust building communication strategy:

1. Societal trust and general knowledge of charities (which will include the possibility of inappropriate use of donated funds) imply that to be broadly successful a charity's trust building communication strategy should attempt to build trust with the most sceptical segment of the population.
2. Cognitive-based trust development requires the continuous provision of very specific types of information (particularly transactional information).
3. Affective trust development requires a synergy between the charity's and donor's beliefs and focus of care, and as such a charity needs to clearly communicate its beliefs and focus of care.

While traditional communication approaches such as direct-mail will still continue to be used by charities, they do offer very little flexibility, and may struggle to meet objective 2 listed above. Furthermore, attempts to make mail-outs look professional and 'glossy' may result in individuals viewing them as expensive, and an inappropriate use of funds. In contrast, the use of a website as the primary communication medium has numerous advantages (Hart 2002), and these are discussed in the next section.

### 4.3.1 *Using the Internet to Communicate*

A significant body of research work has now developed on Internet or web-based fundraising (what has been termed ePhilanthropy, Hart 2002), and within this literature there has been a focus on charity website design issues (e.g. Burt and Dunham 2009; Burt and Gibbons 2011; Burt and Williams 2013; Fox and Carr 2000; Goatman and Lewis 2007; Gueguen and Jacob 2001; McWha and Carr 2009; Powell 2005; Richard 2008; Sargeant 2001; Sargeant, West and Jay 2007; Vanderkam 2010; Waters 2007; Wenham et al. 2003). Given that charities can now easily have their own website, there is a real opportunity for a website to form the central platform in a charity's communication strategy.

It is now possible to reach a global audience via the Internet. No other communication media can potentially reach such a large audience, can be more cost-effective or can be updated as quickly. Marx (2000) provides a useful discussion of the various ways that the Internet can be used by charities, and also discusses how a charity's website can provide much more information than can typically be provided in most direct mailings or agency brochures. While this is undoubtedly true, the extent of information provided and the complexity of the website (layers of embedded links) may have some disadvantages. Strategically, 'less' may in fact be functionally 'more' when it comes to communication aimed at developing a trust relationship with donors (see Sect. 4.4 on monitoring costs).

Before considering issues associated with communicating via a website, it is important to note that there are literatures on a range of charity-to-donor communication strategies, some of which might be transferable to an online platform. The literature on charitable marketing appeals has examined a range of communication strategies which may help gain donor engagement, and influence a donor's propensity to donate. However, these strategies are not typically aimed at building a trust relationship between the charity and the donor. Communication strategies such as suggesting a level (size) of donation (e.g. Schibrowsky et al. 1995; Smith and Berger 1996), listing the names of other donors or the size of others donations (e.g. Reingen 1982), using favourable descriptions of donors (e.g. *as helpers* DeJong and Oopik 1992), and foot-in-the-door (where individuals are initially solicited to, for example, sign a petition, then solicited for a donation (e.g. Bell et al. 1994; Gueguen and Jacob 2001) may work to increase donations in an online environment. Whereas strategies such as door-in-the-face (where the request is initially for an exaggerated amount, and then after refusal a request is made for a small donation, e.g. Gueguen 2003), low-ball (where a specific amount is requested, say 75 cents, then a further request is made to increase the donation by say 25 cents (e.g. Brownstein and Katzev 1985), and legitimization-of-small-donation (where fundraisers legitimize paltry donations in face-to-face contact to increase overall charitable contributions (e.g. Brockner 1984; DeJong and Oopik 1992; see Weyant 1997 for a review) may be more difficult to implement in an online environment. Of course each of these strategies may have potential benefits if a charity uses a broad range of fundraising approaches, particularly in relation to increasing donation response or compliance rates.



### 4.3.2 Search Initiation

There appears to be little research, if any, which directly addresses the question of *when*, in a spontaneous sense, donors begin, if indeed they do begin, to search the Internet for information which will help guide their decision to trust a charity and/or to make a donation to a charity. It is probably reasonable to predict that the search process begins with a consideration on the part of the donor of a *need*. Consideration of needs may be internally motivated by issues which the individual values and cares about (see Sect. 1.1.2 on affect based trust), or externally motivated by media exposure to information about a need (e.g. a major natural disaster), or a combination of both. Donors will vary in their preference for which need they feel they wish to respond to (Wagner and Wheeler 1969; Duncan 2004), resulting in different individuals being drawn to explore different needs (to look for charities through which they can donate to the specific need).

External exposure to needs via the media may reach a broad cross-section of individuals. Some of this 'external' information exposure to needs is probably incidental (e.g. a local news story), rather than directly sought. On other occasions information on needs may come via a secondary source such as another donor, or a family member. On yet other occasions, such as after a significant natural disaster, there may be global, and repeated, media attention. When an individual's internal desire to address a need, and external information about a particular charity working on this need coincide, a donor will know where to acquire information in order to decide if they wish to make a donation via the charity.

If need is a motivating factor when an individual decides to explore options by which they can make a donation, then charities need to ensure that search engines will find them if individuals run web searches using *need describing words*. Sometimes the title of a charity does not tell a donor very much, if anything about the needs, or cause, it is addressing. Generally there are many, perhaps hundreds, of charities operating within the same general cause or need area. To be found by a web search, it would be ideal if the charity's name included reference to the cause or need. It is also important to ensure that a charity website, and associated cause or need related key words, are registered with leading Internet search engines.

Hart (2002) considered the question of how a charity can get individuals to their website, and discussed how *permission-based-emails*, which include the link to the charity's website may provide the initial key contact. A degree of caution is required in making this initial email contact, and a useful set of five guidelines are provided at <http://ephilanthropy.org> Other options to help with initial engagement include, adopting viral marketing where donors are encouraged to forward emails with web page links to friends and family, and including a 'send-a-friend option' on a web page, where a reader can simply send a link to the specific article or web page to another person (Hart 2002).

Of course, not all donating is a planned behaviour. Bennett (2009) conducted a very interesting study on impulsive donation decisions. These are situations where an individual was not planning to make a donation, but impulsively did so when an

opportunity presented itself. The study concluded that approximately 15 % of donations made online to the charity (the study focused on a hospice charity based in England) were impulsive donations. Clearly, that leaves the vast majority (85 %) where the donor had undertaken a more planned and rationale search prior to making a donation. While individual differences in impulsiveness and attitude towards impulsive behaviour are related to impulsive donating, there also seems to be an opportunity to influence impulsive donating through careful website design. Bennett (2009) made a number of recommendations about how a website might be designed in order to encourage impulsive donations, including:

1. Information and images should be presented in a location which ensures they are quickly noticed.
2. Emotive elements need to be included—Bennett (2009) tested this with pictures and concluded that an emotively oriented homepage increased impulsive donations by 31 %.
3. Include statements and information which provide justification for making an impulsive donation, such as about the trustworthiness of the charity (although this does suggest it may move an impulsive donation more towards a rationale decision).
4. Include images of desperately urgent need.

### ***4.3.3 Engaging Donors in Order to Communicate: Getting them to Stay on your Website***

The consumer literature on online search behaviour uses the term *site stickiness* to describe how often consumers visit a website, and how much time they spend on the site (Bhatnagar and Ghose 2004). As such, a sticky site attracts a lot of visits and consumers spend more time on the site. It is also clear from the consumer research literature that different categories of website (e.g. travel sites, financial sites) attract different lengths of browsing and search behaviour. However, the general rule seems to be that web searching and browsing is a quick activity, with users moving from site to site with rapid speed. This speed aspect of browsing is an issue for charities as it limits the window of opportunity for effective communication and development of a trust relationship.

The very limited window of opportunity that charities have to communicate with donors is dramatically illustrated if we examine research on individuals' interaction with web pages. Page viewing time results based on clickstream data strongly suggest that individuals are not likely to spend a lot of time on any particular website or web page within a website. For example, Bucklin and Sismario (2003) reported an average web page view duration of 102 s for an automotive industry site; Dineen et al. (2007) reported an average of 174 s spent viewing online job postings; and Bennett (2009) cited commercial research undertaken by a charity group that indicated 42 s was the average time people spend looking at a charity's

web page. Clearly, these time values are very small, and it may be a challenge to ensure meaningful communication occurs within such a small window of opportunity. One important issue which may help with ensuring meaningful communication within a limited time window is to keep the website interaction costs to donor as low as possible.

#### 4.4 Costs to Donors of Obtaining Information

Once donors find a website, it is important that they can interact with it. There is some research evidence which suggests that over time charity websites may be becoming increasingly complex, and as such not always able to serve their clients well, with complex reading and comprehension levels, a lack of language options (e.g. Friedmeyer-trainor et al. 2012), and perhaps a time cost associated with locating information which is beyond the time which people typical wish to invest.

For a donor to actually engage with information provided by a charity they must donate some of their time. Thus information provided to prompt a monetary donation or develop a trust relationship is in effect requesting a time donation. While the donor population may be willing to part with an amount of money, they may be less willing to give away a significant component of time. This creates a complex interaction, where obtaining a small amount of a donor's times in which key information can be delivered may well have a significant influence on their monetary donation. Thus charities need to ensure that the time required from donors to engage with, and to understand, their communication is as small as possible. A mailout with many pages of text may simply require too much of the donor's time, and accordingly be ignored. Similarly, a website with numerous links and layers may work against the communication process.

Searching for information within a website has associated costs, and an interesting study conducted by Wardell III and Ashley (2011) examined the influence of *monitoring costs* on donors giving behaviour. Monitoring costs were defined as the perceived and real costs to a donor associated with staying (or becoming) informed about a charity's activities and outcomes. Charities have considerable control over the monitoring costs that they impose on their donors, and this is particularly so if their fundraising uses an online platform. Monitoring costs to donors can be reduced if a charity provides transparent, up to date, and easily understandable information on operational characteristics and programme success. Wardell III and Ashley (2011) used search theory as the framework for their study. Search theory suggests that individuals make decisions based on information, better decisions are made when more information is available, *and* when the cost of acquiring the information is low. The study examined two predictions: that lower monitoring costs will attract greater donation support, and will be more likely to 'attract subsequent donations from previous donors' (p. 412).

Wardell III and Ashley's (2011) study used the GlobalGiving website (see <http://www.globalgiving.org/>), a website that allows charities to post information

about their projects, and solicit donations on a dedicated page. Donors can search or browse the GlobalGiving site for a charity they wish to donate to. Charities are recommended to post updates on their page within the GlobalGiving site at least quarterly, and these might include photos, activity data and descriptions, financial information and output data. The study calculated two variables aimed at measuring monitoring costs: the number of updates posted by a charity and the number of days between updates (the study also used the number of days since last update in their analysis). After controlling for a number of variables, the analysis (somewhat surprisingly) did not find the expected relationships between monitoring costs and donating. Several reasons were offered for the unexpected results.

To some extent the use of the GlobalGiving site by donors produces monitoring cost saving, as the GlobalGiving site has a strict due diligence process before listing a charity, and offers a money back guarantee for dissatisfied donors. Furthermore, the study did not examine the content of posts and it is possible that frequent posts may simply have not contained the type of information which donors need, provided no effect monitoring cost reduction. Finally, more posts essentially increases the time which a donor may need to search the material for the relevant bits of information, and less may be more in terms of monitoring costs. However, while Wardell III and Ashley's (2011) study did not find the expected results, it does highlight the importance of considering the 'costs of monitoring' which charities impose on their donors. As a general rule a charity's website should make information immediately available, rather than embedded in layers of links, with as little time cost as possible to the donor.

## 4.5 Key Website Design Features

Sargeant et al. (2007) provide a very useful discussion and summary of the basic features which a charity website should include. These are labelled *accessibility*, *accountability*, *education*, *interaction* and *empowerment*, and were found to be associated with the number of new donors that a website was able to attract. Furthermore, *accessibility*, *accountability* and *education* were correlated with the total value of online donations. These basic features were defined as follows:

*Accessibility* the site should be easily navigable and a donation should be able to be made easily from all places in a site (the donation button should always be present).

The case for support should be clear (accessible), and this could be to the level where it is specified what may be achieved with a specific level of donation.

*Accountability* the site should be accountable for how it collects and manages personal data. Accountable for how it uses donations—as discussed at length in [Chap. 3](#).

*Education* the site should allow the donor to learn more about the cause, and the work of the charity.

*Empowerment* the site should inform donors of the differences they have made via information about the charity's outputs and outcomes.

While Sargeant et al. (2007) have provided useful general guidelines, further consideration is needed to identify the specific types of information which donors need. The literature has identified a number of factors which should be communicated to donors in order to facilitate trust development, including the number of beneficiaries served, response time, organizational ethics, organizational benevolence, the existence of the skills, abilities and knowledge necessary to deliver effective outcomes, and as already discussed, information on *price* or the division of donated funds to administrative costs and output services (Kennedy et al. 2001; McFall 1987; Morgan and Hunt 1994; Sargeant et al. 2009). The need to communicate *price* information to the public has received considerable research attention, and is nicely discussed in Sargeant et al. (2009). This work summarizes recent United Kingdom government initiatives aimed at encouraging non-profit organizations to report fundraising price, and how various accounting practices can result in both misleading and 'hard to Interpret' price information.

As well as specific types of information, the history-based trust development processes discussed in [Chap. 1](#) argues that donors need a *constant stream of up to date information*. Based on this a charity needs a way of delivering reliable and relevant information on a regular basis to donors. Therefore, the aim is to build an engagement relationship with donors.

### ***4.5.1 Communicating Output Achievement and Trust***

Normally, information about the services provided by a non-profit organization for their target beneficiary group is not easily accessed by donors (Sargeant et al. 2006). Furthermore, outputs can be difficult to measure in terms of efficiency, yet efficiency is often seen as important by donors. In contrast, it is probably relatively easy to impose a degree of accountability on outputs. The public need to know or see that appropriate outputs are being achieved. Furthermore, it is reasonable to predict that if the public see evidence of the sort of outputs they expected from their donation, or from the type of charity organization that they donated to, that their trust in the organization should be developed and maintained.

This prediction was tested in an experiment reported by Burt and Dunham (2009) which manipulated whether an charity's website homepage showed photographs of a crisis-need only, photographs of the crisis-need and the organization's response (outputs), or photographs of just the organization's response to the crisis (just outputs). Results indicated that mean rated charity trust was significantly higher when information (photographs) showing both

what crisis the organization was responding to, and their work (outputs), were included in a sequence on its home page.

Showing a sequence of photographs which map the crisis or need to output relationship, is essentially showing the *transactional path* from the need for which money was donated to how that money was used to address the need. Arguably, showing donors the transactional path is a way of providing a sense of a complete transaction. While a pictorial transactional path representation does not address the efficiency of the transaction. That is, what proportion of donations were actually used to generate the output, it does give a sense that a transaction occurred.

Many charities have links on their web pages to photo galleries showing their outputs. However, few of them seem to be organized along the lines of a transactional path representation. This strategy is undoubtedly a very low cost communication solution, which provides the public with valuable information to allow transactional trust to be developed and maintained. Photo galleries also have another weakness: photo galleries have to be accessed by the donor. In other words the donor needs to search for the information. In recent work, Burt and Gibbons (2011) conducted experiments where output information (and pictorial representations of the transactional path) were designed into the 'donation button' on a website. In this type of website design, the donor is confronted with the transactional path as part of the process of making a donation (no extra searching is required). Burt and Gibbons (2011) compared organizational trust ratings for a web page with a donation button which included embedded need and output information (the transactional path), with a web page showing a standard donation button link, and found that embedding the transactional path information into the donation button significantly increased rated trust in the charity.

Another emerging trend, which has great potential for the development of transactional trust, is for a charity's website to be developed more along the lines of a retail or online purchasing website. Such a website gives the public the opportunity to donate for a very specific output via a type of purchase agreement. For example, a donor can purchase a specific item, such as a goat, from the charity website. The charity then undertakes to ensure a beneficiary receives the goat (or a goat). This is sometimes referred to as the third-party-gifting approach, mainly because the donor can receive a certification of their donation which they can obtain in the name of a third party. As such, they can make the donation on the third party's behalf, and can give their donation as a gift (i.e. you give your sister a certificate for Christmas which states that she purchased a goat as a charitable act). In this form of donating, the donor knows what output their donation is being used for. Very little empirical research has been conducted on third-party gifts. However, in a recent study Kemp et al. (2011) found that donors gave significantly higher

trust ratings that a donation for a specific item, such as a goat, or school books would reach a beneficiary recipient, compared to trust ratings that a cash (money) donation would reach a beneficiary recipient.

## 4.6 Other Currently Used Communication Options

In this section, I discuss several communication options which charities are using that appear to take into considerations the type of information which is needed to develop a trust relationship, the need to communicate as rapidly as possible, and the need to keep the cost of communicating as low as possible.

### 4.6.1 *Listing on an Accredited Website*

It may be possible for a charity to communicate trust by forming an association or relationship with an already trusted organization. For example, a charity that lists (fundraises) on an accredited site, such as GlobalGiving, may be perceived as trustworthy by donors. This of course relies on donors understanding how a site, such as GlobalGiving, operates. Donors would need to understand how the criteria for listing on a third-party fundraising site helps to ensure a degree of trust in the charity. For a useful discussion of these issues see Wardell III and Ashley (2011).

### 4.6.2 *Displaying a Rating from an External Organization*

In response to concerns about mismanagement and donor trust, a number of organizations have developed standards or rules by which a charity can be judged. These often result in a rating or set of ratings for a charity. A charity can communicate information about its trustworthiness by displaying on its website the rating/s it has received from an external organization. Organizations, such as Charity Navigator (<http://www.charitynavigator.org>) and the American Institute of Philanthropy (<http://www.charitywatch.org>) provide efficiency information (ratings) for charity organizations. Such ratings may be provided for a range of variables, such as organizational efficiency, programme expenses, administrative expenses, fundraising expenses and fundraising efficiency. Rating information is undoubtedly useful for donors to develop a deeper understanding of a charity without having to undertake a substantial amount of research of their own. Of course donors need to understand what rating information really means, and they have to have a degree of trust in the rating organization.

While the rating idea has widespread support, and seems intuitively useful, research evidence for its impact on donors is mixed. Szper and Prahash (2011) examined the relationship between charity ratings (listed by Charity Navigator) and donor support. Interestingly they failed to find a significant relationship. A similar result was found by Silvergleid (2003), who examined the relationship between ratings provided by the American Institute of Philanthropy and donor contributions. Overall, it is hard to find clear statistical evidence that information provided by charity rating organizations is having a significant impact on donor behaviour. This conclusion was also supported when Szper and Prahash (2011) conducted a series of 10 interviews with charity representatives. Individuals questioned generally indicated that their organizations 'rating' was not the major driver behind their donors behaviour. The issues of goodwill and reputation were noted by interviewees as key influences, and it was also noted that charity ratings which tend to be based on financial analysis do not truly reflect all these aspects of a charity.

The message from the preceding analysis is that a charity would be unwise to solely rely on ratings from an external organization to deliver trust building information to its donor population. First, there is clearly a basic problem of getting donors to understand the rating information which is presented. There is also a problem in that information presented by a rating may only be presenting part of the information which donors need, and in particular generally lacks a clear indication of a charity's outcomes: its ability to create long lasting and meaningful changes within the domain in which it works.

### ***4.6.3 Displaying an Accreditation Seal***

An accreditation seal operates in a similar way to a rating. The difference is the outcome is represented by a symbol (a seal), rather than a rating number, which can be displayed on a website. For example, in the Netherlands the Central Bureau on Fundraising (CBF) has developed an accreditation system. To receive the accreditation seal a charity has to abide by a set of rules relating to financial management, allocation of resources and reporting (Bekkers 2003). Accreditation allows the use of the accreditation seal on a charity's website and in other communication with donors. Clearly displaying a *seal* could provide an easy, and cost-effective way to communicate useful information to donors, but only if donors understand what the seal means. Bekkers (2003) reports that a media campaign managed to increase awareness of the accreditation system in the Dutch populations from around 16 % to over 31 %. While encouraging, 31 % is still only about one third of the population, and it is not clear if this represents the segment of the population which are active charity supporters. While it seems clear that widespread knowledge of the CBF seal may be lacking, a study by Schuyt (2003) found evidence that participants with knowledge of the CBF seal reported a higher level of trust in a number of religious charitable organizations, compared to those who did not know of the CBF seal.



Further support for the value of an accreditation seal was found in a study conducted in America. A *Seal of Excellence* given in Maryland to US charities that achieved standards relating to ethics and accountability was found to be associated with an increase in trust (Maryland Association of Non-profit Organizations 2002). While there appears to be mounting evidence that a seal given on the bases of well-defined and evaluated standards, can have a positive influence on donor trust, there are many hurdles to introducing such a system. Bekkers (2003) provides a useful discussion of these as they relate to transferring the Dutch system to the United Kingdom and America. One issue with the use of an accreditation seal is that it does not communicate very specific information about the charity, and as with the rating systems discussed in Sect. 4.6.2, donors need to trust that the accreditation system (organization) will get it right. Despite these limitations, there are probably no major disadvantages to displaying an accreditation seal on a charity's website.

## 4.7 Consistency of Dialogue and Feedback

A website allows a charity to bring donors into their donor population and in doing so allows a mechanism by which information can be regularly forwarded to donors, such as *achievement alerts*. These achievement alerts need to be handled carefully, as information overload may work against the charity. Furthermore, achievement alert should be linked to the original purpose of the donation. For example, it would not be wise to seek donations to fund, for example fresh water-well development, then some time later send out achievements alerts about, for example, housing construction. While housing construction may indeed be a useful thing for the beneficiaries, hearing that their donation was used for something other than what it was thought to be donated for may undermine donor trust.

Finally, effective communication is a two-way process. There are at least two important aspects of feedback which charities might engage with. First, a website can generate a thank you message in response to a donation, and this message can include information which could help build trust. Such a message might reiterate how the donation will be used. Second, a charity can request feedback from donors on their website, the information it provides, their ability to find key information, and the ease of making a donation. Providing this option may help form the relationship aspect of communication with donors.

## 4.8 Summary

Donors generally want to know about a charity that they are thinking of donating to. The development on the part of the charity of a clear and focused communication strategy can make it easier for donors to obtain the information they need. A central feature of a communication strategy is that it should address the issue of

trust development. In this chapter, I have discussed a number of options, which a charity can use in their website design which can help deliver trust building information. The use of photographs which are clearly organized to show a transactional path is perhaps the easiest strategy to adopt. Two other key considerations are getting potential donors to the website, and ensuring that the monitoring costs associated with their interaction with the website are as low as possible.

# Chapter 5

## Dealing with Trust Violation Events

This chapter discusses how a charity might deal with a trust violation event. A trust violation event could be a fraud or inappropriate use of funds either in one's own charity organization, or it could be a similar event in another charity organization operating in the same sector. Unfortunately, fraud is not uncommon, and Wolverson (2003) reported that charity employees stole or misappropriated around \$1.28 billion from 152 organizations over a 7-year period. Several authors have noted how fraud can heavily impact on the public's trust in non-profit organizations (e.g. Holtfreter 2008; Wilhelm 2006; Zack 2003). If a trust violation event becomes public knowledge, and they often do, they are likely to have a widespread negative impact on donor trust. In this chapter it is argued that trust violation events require a charity to engage in additional information delivery (communication) activities, and having a clear plan for how trust violation events might be dealt with may help reduce their impact on fundraising efforts. This chapter also discusses research which has examined the media's reporting of charity activities. This is followed by a description of how donors might process negative information about a charity. Finally, strategies which a charity might adopt to minimize the impact of a trust violation event on donor's trust are discussed.

### 5.1 Relying on External Regulatory Compliance to Avoid Fraud

It is common to find external regulatory attempts which are at least partially aimed at reducing fraud in charities. For example, the New Zealand Charities Act, 2005 <http://www.legislation.govt.nz/act/public/2005/0039/latest/DLM344368.html> and the Singapore Charities Act, 2006 <http://statutes.agc.gov.sg/aol/search/display/view.w3p?page=0;query=DocId%3A60ae56e8-9a80-42b4-ab39-52aaba2ec579%20%20Status%3Ainforce%20Depth%3A0;rec=0>. Such legislation typically incorporates requirements of accountability and transparency which should make it more difficult for fraud to occur. Cordery and Baskerville (2011) provide a useful

discussion of how the introduction of such legislation should help maintain donor trust by helping ensure fraud does not occur, but also pointed out that legislation may make a charity focus on a specific subset of stakeholders, such as demonstrating accountability to government bodies, at the expense of other groups such as the general public. While external regulation is an important safe guard against fraud, it is unlikely to completely remove wrongdoings from the charity sector. Thus, it is important that a charity in the event of a trust violation event has a reaction strategy which aims to deliver information to all its stakeholders, including large funders, the donating public and beneficiaries.

## **5.2 Media Reporting of Fraud and Misappropriate Use of Donations**

There is ample evidence that ‘wrongdoings’ occur in the charity sector, and Gibelman and Gelman (2001, 2004) provide descriptive information on a large number of trust violation cases. A number of other studies have also clearly shown that incidents of charity fraud, mismanagement and inappropriate use of funds are from time to time reported in the media (e.g. Hale 2007; McDonald and Scaife 2011; Therckelsen 2011). McDonald and Scaife (2011) conducted a two-nation (US and Australian) comparison of philanthropy print media coverage between 1986 and 2010. The study found that philanthropy media coverage was generally positive in both countries. However, they did identify articles with a negative frame. Hale (2007) examined 1,034 newspaper articles published in 2003 in nine American newspapers. Articles were located using online search archives using four keywords: philanthropy, non-profit, charity and foundation. The study found that approximately 1 in 10 of the newspaper articles presented material categorized as very unfavourable to the non-profit sector. Similarly, Therckelsen (2011) who conducted a thematic content analysis of articles published in *The New York Times* between August 1, 2008 and August 1, 2009 found a small percentage of criticizing or negative press articles. Thus, there is little doubt that the public are exposed to negative press about charities from time to time.

The media can be viewed as a third party conduit of trust because of their ability to deliver trust-relevant information. The media in many ways is delivering ‘gossip’, which is hopefully based to some degree on fact, and gossip has been shown to influence trust (Burt and Knez 1995). Furthermore, in some respects the media is the eyes and ears of the donating public, who individually may have limited resources (time) to monitor charities behaviour, either good or bad. Unfortunately, while there may be a factual basis to media reports, media reports are likely to somewhat sensationalized trust violation events (the old dictum, bad news is good news for media organizations) to the point where neither the donor, or the charity, is well served. Cappella and Jamieson (1997) provide a useful review of evidence relating to the media’s role in the public’s development of distrust, or rather in the decline of trust, although the work is not specific to the charity sector.

## 5.3 Fraud Opportunities

Zack (2003) noted that the non-reciprocal nature of non-profit organization's transactional operations can create unique opportunities for fraud. That is, money once donated is totally under the control of the charity organization, and donors have little if any ability to track it. Furthermore, Holtfreter (2008) examined fraud in 128 non-profit agencies, and found that insider asset misappropriation was the most common type of fraud in non-profit organizations.

When a major world event occurs, such as the 2010 earthquake in Haiti, there are opportunities for dishonest individuals to take advantage of the likely significant increase in donating by, for example, creating a bogus website, and purport to be collecting donation to support some form of relief effort. Media reports of such *scams* are not too difficult to find (e.g. <http://arstechnica.com/security/2010/01/fbi-warns-of-haiti-donation-scams-advises-legit-ways-to-help/>). The ease with which a website can be created, combined with perhaps a rather impulsive reaction on the part of donors to give towards a relief effort in the aftermath of such a significant event, can create significant difficulties for the charity sector. If such a scam is identified, it is likely to generate media coverage which will impact on donors' willingness to donate online. Thus, such scams not only directly divert donated funds, but may also reduce other charities ability to fundraise.

While clearly a charity should not expect fraud within its own ranks, history tells us that a charity can anticipate fraud events within its charity sector. Thus, fraud in one charity is likely to tarnish donors' perceptions of other charities. In [Sect. 1.1.5](#) the concept of category-based trust was discussed. Fraud within a sector has the potential to influence donor's category-based trust. Thus, a charity should develop, in parallel with their trust building strategy, a plan to deal with the aftermath of a trust violation event either within their organization or within their sector.

## 5.4 Integration of Negative Information into General Knowledge and Its Impact on Trust

It would be expected that individuals encountering media articles about trust violation events associated with charities would integrate the information they contain into their general knowledge about charities. Thus, and as noted in [Sect. 4.2](#), an individual's general knowledge of charities (their prototypical knowledge structure) is likely to contain information relating to the fact that charity fraud, mismanagement and inappropriate use of funds does occur.

A number of scholars have noted that it is easier to destroy trust, than it is to develop trust (Barber 1983; Janoff-Bulman 1992). In fact it appears that the cards are stacked against a charity in this regard. Slovic (1993) showed that trust-destroying information was perceived as more credible than good or positive news.

There is also research evidence which suggests that people overgeneralize from vivid and highly salient events (e.g. Zimmer 1972), which is often the way the media reports charity fraud. Thus, a single negative media report of donation misallocation is likely to be noticed and remembered by donors, and as such could destroy years of good work building a trustworthy reputation.

Cognitive psychology research points to the difficulties that a charity may face in the aftermath of a trust violation event. For example, Gilbert, Krull and Malone (1990) and Gilbert, Tatarodi, and Malone (1993) have demonstrated that individuals are hardwired to incorporate information (allegations) into their belief structure and *then* unaccept them under certain conditions. Thus a charity, via the media's likely interest in any form of fraud or scandal, and by the nature of human information processing, is always going to be faced with trying to deal with donor's exposure to negative information, and the scepticism and suspicion which it may create. Without a response strategy, even completely untrue (or exaggerated) allegations may become believed and have a negative impact on donors perceptions of a charity's trustworthiness.

Suspicion is one of the central components of distrust (Deustch 1958), and suspicion can be prompted when a donor receives information which indicates or implies that a charity might be insincere, is about to, or has violated expectations, or appears to have ulterior motives. Experimental work by Fein (1996) suggests that suspicion tends to provoke active, considered processing of attribution-relevant information. In other words, donors that become suspicious of a charity (or a charity sector) are perhaps likely to consider more carefully the information which the charity is providing, or which is provided about it by a third party.

## 5.5 Rebuilding Broken Trust

Dealing with fraud essentially requires the rebuilding of trust (Ferrin 2002). While there is vastly more literature on trust development, than there is on rebuilding broken trust, a number of studies have been undertaken. Fraud and corruptions are not unique to the charity sector, and arguably these problems are more prevalent in the for-profit corporate sector. Paralleling this, the literature on strategies to deal with fraud and corruption tends to focus mainly on the corporate world (e.g. Anand et al. 2009; Benoit 1997; Coombs 1995, 2006). Some of this work may be transferable to the charity sector, although some suggestions for dealing with corruption, such as defending the act by referring to higher goals as a justification, or by attempting to reframe the situation by normalizing the corrupt act as standard practice, seem to have little transferability.

Ferrin et al. (2007) examined the use of *reticence* as a response to a trust violation event. They defined reticence as “as a statement in which the accused party explains that he or she cannot or will not confirm or disconfirm the veracity of an allegation” p. 893. This strategy is somewhat akin to putting your head in the sand and hoping *they* (they normally being the media) will go away. The conclusion from Ferrin et al. (2007) experiments is that reticence is a suboptimal strategy for dealing with trust violations. It does not work.

Other strategies which have received research attention are termed *apology* and *denial* (e.g. Tomlinson et al. 2004). Apology has been proposed as potentially effective as it implies remorse which may positively influence donors’ beliefs about the charities true motives and intentions, and implies a one-off nature to the trust violation event (Tomlinson et al. 2004). Of course apology is an acknowledgement of guilt, and really can not be used if the trust violation event has occurred in another charity. Denial avoids acknowledgement of guilt, but is similar to reticence. Kim et al. (2004) discuss the pros and cons of the apology and denial approaches. Both strategies can have benefits, apology implies a sincerity that such events will not happen in the future (or perhaps will not happen in this organization), while denial rejects culpability, and donors may give the charity the benefit of the doubt. On the other hand, both strategies have risks: with an apology there are potentially harmful effects of admitting culpability, while denial may communicate a complete lack of sincerity.

The work of Coombs and colleagues (e.g. Coombs 1995, 1998, 2004, 2006; Coombs and Holladay 1996, 2001, 2002) on Situational Crisis Communication Theory (SCCT), while not focused on the charity sector, does appear to provide a very useful, and comprehensive, framework which can be adapted to help charities develop a communication strategy to deal with a trust violation event.

What follows is my attempt to describe how SCCT can be adapted for this purpose. SCCT was developed to provide a guide for an organization to select an appropriate crisis response strategy.

The first step or component of SCCT is a consideration of the crisis situation which the organization is faced with. Previously in this chapter, I have discussed how a fraud might be uncovered within a charity, how a significant world event might create an opportunity for unscrupulous individuals to setup a bogus website, and try to scam donors into donating, and how a fraud might occur in another charity working in the same sector. These few examples, while not exhaustive, indicate that there is a range of trust violation crisis events which a charity might face. SCCT highlights that the reputational damage (impact on donor trust) from a crisis event will be partly determined by crisis responsibility. In the examples above, internal fraud or misappropriation carries the greatest crisis responsibility, and the potential impact on donor trust will increase as crisis responsibility increases. Thus, the first step in applying SCCT within a charity is to classify

a trust violation event in terms of crisis responsibility. SCCT also argues that clusters of crisis events should be able to be formed, for example there will be a number of different internal events which can all potentially have a negative impact on donor trust. Associated with these clusters will be the response strategy. Thus clusters partly simplify decisions about appropriate responses.

SCCT also argues that crisis history and relationship history can intensify the negative impact of a crisis. For example, if a specific charity or a particular charity sector has a history of fraud events this is likely to intensify the negative impact of any specific event. Relationship history can be characterized as the degree of trustworthiness which donors have for a charity, if the relationship is strong, donors genuinely believe the charity is trustworthy, the negative impact of a trust violation event may be somewhat less. Of course if the relationship history is weak, perhaps the charity has done little to build a trusting relationship with donors, then this weakness will arguably intensify the negative impact of a crisis event. This last point highlights the value of developing trust with donors, as it may in the long term help cushion the impact of a trust violation event.

The next aspect of SCCT is the determination of what an organization says and does after a crisis event. SCCT argues that there should be a systematic process by which the crisis response strategy is identified, with the aim of maximizing reputational protection. The initial and immediate response after a crisis should provide what is termed instructing information. SCCT argues that there are three types of instructing information; (1) basic and honest information about the trust violation event, (2) what donors need to do to protect themselves and (3) what the charity is doing to correct or prevent the problem repeating. Clearly, whether all three types of instructing information are required will depend on the trust violation event. For example, type 2 would be appropriate if a charity is alerting their donors to a bogus website, but not appropriate if the event is characterized as an internal funds misappropriation.

Following the provision of instructing information the charity needs to decide which crisis response strategy to adopt. SCCT makes three suggestions: (1) establish that no crisis exists (for example, an investigation might show allegations of fund misappropriation were in fact incorrect), (2) reframe the event so it is perceived as less serious (for example, an investigation might show that the crisis was associated with a single individual, a rogue event), (3) work to repair the charities reputations, donors trust. The last option is referred to as *deal* with the crisis event. Coombs (2006) offers a number of response strategies under the *deal* heading which might be applied in a charity: (1) *Ingratiation*, where the emphasis is placed on past good work, and a commitment to continuing this into the future, (2) *Concern*, the focus is to express concern for the victims (which could range from beneficiaries to donors depending on the particular trust violation event), (3) *Regret*, the charity expresses how bad it feels about the event and (4) *Apology*, the charity takes full responsibility for the event and asks donors for forgiveness (basically to continue trusting the charity).

Finally, SCCT argues that a basic matching process is needed. This involves placing the crisis event into the appropriate crisis cluster (which as noted



determines its potential reputational impact). Immediately, following the event there is the provision of instructing information. Next, the response option which fits the context of the event (determined by its initial character and information provided by subsequent investigations) is decided upon and initiated. While SCCT was not developed to deal with trust violation events in the charity sector, it does seem to provide a useful framework.

## **5.6 Summary**

This chapter has highlighted the need for charities to have in place a communication strategy which they can rollout to deal with trust violation events. It is clear that trust violation events do occur, will no doubt continue to occur, and that their impact on a charity's reputation and donor trust will vary. Recommendations from the for-profit literature on response strategies to trust violation events appear to have some transferability to the charity sector, and SCCT in particular seems to offer a useful framework. A charities website should offer a useful delivery mechanism for a charity's crisis response strategy, and as noted in other places in this book it can provide information to donors quickly, and can be updated quickly (respond to the evolving nature of a trust violation event).

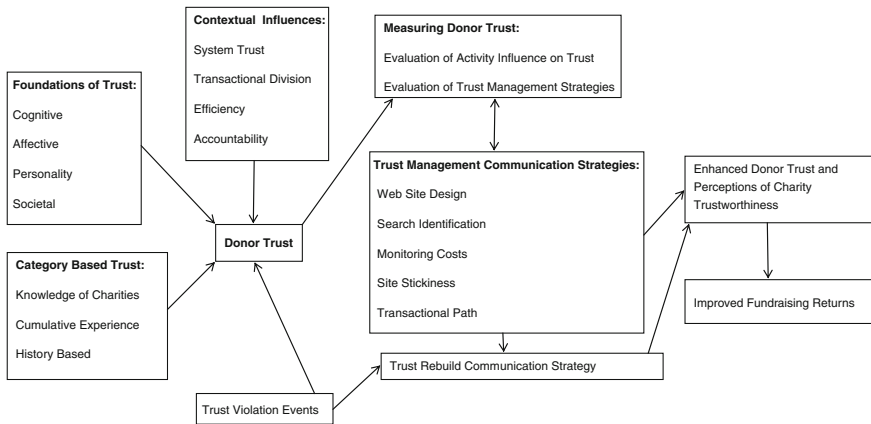
## Chapter 6

# Summary and Conclusions

Figure 6.1 is an attempt to summarize the key considerations discussed in the previous five chapters. It is clear that a number of variables are likely to influence a donor's level of trust in both a charity sector and in a specific charity. These variables are shown on the left-hand side of Fig. 6.1. An understanding of how these variables are influencing trust can only be determined via the measurement of trust. Based on an understanding of donor trust (its measurement), a charity can (and should) tailor a trust management communication strategy to suit their situation and their donor population. A well planned and executed trust management communication strategy should have a positive impact on donor trust and donors' perceptions of a charity's trust worthiness. Ultimately, these outcomes should have a positive impact on fundraising returns.

The foundations of trust in an adult population are both relatively fixed (personality and societal trust), and relatively open to cultivation (cognitive, affective, and category-based trust). The left-hand side of Fig. 6.1 shows these foundation components. Throughout the chapters, an attempt was made to illustrate how a charity can attempt to influence donor trust by considering the mechanisms which are central to the development of trust via cognitive, affective and category-based processes. At the most basic level, influencing processes are centred around the provision of information. Overtime individuals will accumulate information which is likely to see their trust in the charity sector, and in a specific charity, either increase or decrease. For example, information provided on operational efficiency (if acceptable) may increase trust perceptions, yet a scandal in the sector may undo this the next day. Clearly, charities face many challenges in their attempts to build and maintain donor trust.

Considerable attention by both scholars and policy makers has been given to the concepts of efficiency and accountability (what I have referred to as contextual influences on trust), and Chap. 3 attempted to describe the key aspects of this work. The general goals espoused by this work clearly link into donors' trust development. These contextual influences operate at both the charity sector level and at the level of the individual charity. This makes their management within a trust building strategy somewhat tricky. While an individual charity may be operating in a very efficient way, and communicating this to its donors (being accountable), other



**Fig. 6.1** An integrative model of variables likely to influence a donor’s level of trust in both a charity sector and in a specific charity

charities in the same sector may undermine this by operating in a very inefficient way. Media reports of charities being reckless with donated funds, and paying executives excessive salaries are not hard to find. In my mind these reports can be just as damaging to donor trust as reports of theft. Thus it is not enough to be simply operating efficiently, and practicing accountability. Both efficiency and accountability need to be integrated into a broader trust management strategy which is sensitive to sector behaviour, and reactive when necessary.

Chapter 2 discussed in detail the various options that are available to measure donor trust. Measurement provides understanding. It provides an ability to determine the impact of contextual events, and it provides an ability to evaluate the impact of a charity’s trust management strategy. Without measurement a charity is ‘blind’ to how its donors feel about its trustworthiness. It is blind to how the behaviour of other charities might be impacting on its donors. Unfortunately, many of the available trust measurement options have fundamental flaws which seriously limit their ability to deliver sound information. In contrast, the concept of donation-splitting is both easy and quick to introduce, and is likely to provide both sound information, and potentially also have a positive influence on trust development.

Chapters 4 and 5 perhaps provide the most useful information for charities, as they cover the communication processes which can be used within a trust development strategy. Considerable attention was placed on the use of an online platform as the primary communication mechanism. *Cheap* and *speedy* are perhaps two key aspects of communicating using a website. While initial development will have a cost, subsequently daily postings, real-time updates and pictorial representations of transactional path information can be delivered cheaply and quickly. Donor trust changes in real-time, and it can decrease during a single day. If donors’ trust level is subject to daily fluctuation, then a trust management strategy must operate with equal speed.

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