

Fundraising Strategies of Nonprofit Organizations: Measuring ROI and Success in a Time of Economic Crisis

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ABSTRACT

Fundraising is a vital part of many associations across the United States—many organizations depend greatly on the generosity of the public to continue to serve their constituents. However, what do these foundations do when the economy is not conducive to raising money? How do they alter their strategies to continue to promote their cause and create the capital needed to survive? The following research aims to discover the answers to these questions, focusing on the strategies that have proved successful during times of economic crisis. Throughout the exploration there will be a particular focus set on the event industry and its involvement in the realm of fundraising. The aim of the research is to understand how the events hosted by nonprofit organizations have changed or been altered to deal with the ever-changing tide of the United States economy. The case study presented focuses on foundations located in Michigan, an area of the country that has seen overwhelmingly drastic effects of the most recent economic crisis.

Keywords: *Event industry, non-profit, fundraising, economy, return on investment.*

INTRODUCTION

Nonprofit organizations are prominent in most every country, raising funds and otherwise partaking in activities aimed to benefit the public. In 2004, there were approximately 1.4 million nonprofit organizations in the United States, a number that has continued to rise (Yi, 2010). A not-for-profit company can be defined as any organization that seeks to raise funds for a particular cause, or to otherwise serve the public in all its pursuits. These companies must also be recognized as such by the Internal Revenue Service to remain within this category. The success of these organizations depends greatly on the willingness of the public to give, and give often. The main goal of any nonprofit is to create a steady, profitable foundation that has the ability to do what is needed to reach its mission. However, this may include more than merely raising funds. Many of these organizations have missions that call for them to go beyond simply benefiting the members of a certain target group, but also to educate the general public about the particular needs thereof (Sargeant, Jay and Lee, 2006). Having goals and needs such as these require a good deal of monetary support, requiring definitive and well thought out strategies for acquiring donations.

For a nonprofit to remain operating it must be both effective and efficient in its ability to raise funds. Throughout organizations such as these, the most prominent goal is to place current funds into fundraising strategies that will provide the greatest return on investment (ROI). With that said, it is clear that research aimed at determining the effectiveness of their strategies could provide them with very valuable insight. The topic of performance measurement has become urgent for nonprofit organizations, especially as they begin to encounter greater competition from the growing numbers of organizations who are all competing for the same group of donors (Kaplan, 2001). Not-for-profit companies can obtain vital information from the research that has

been conducted (and is yet to be undertaken), that seeks out and determines the levels of overall effectiveness and efficiency of their fundraising strategies.

Research Question

The question being explored through this proposed research is whether or not there are particular, newly developed, strategies that have aided organizations in continuing to raise funds during difficult economic times. Particularly, the research will focus on the differing events organizations have used in their attempts to raise money. In addition, the research will explore the existence of connections between the strategies the organizations in different sectors of the industry use to raise money when the public does not have much to give.

Definition of Terms

The most important term to be defined is what it means to be a “non-profit organization.” As stated above, a non-profit organization, is any organization that seeks to raise funds for a particular cause or to otherwise serve the public in all its pursuits. These companies must also be recognized and documented as such by the Internal Revenue Service to remain within this category.

Literature Review

Measuring the efficiency levels of nonprofit organizations has been done utilizing a number of differing strategies, however, it is not a simple or easy process no matter how it is undertaken. A mathematical approach was taken by Yi (2010) in a study with the main objective of estimating the fundraising efficiency of nonprofit organizations in the United States and to examine the determinants of fundraising efficiency. This study utilized a stochastic frontier approach, a model developed by Battese and Coelli (1995). The author focused particular attention on three determinants of efficiency in the organizations, these were: organization size, government grants and the fundraising expense ratio. The data of the study contained organizations in 26 different industries in the nonprofit sector, the largest of which included: art, education, health, human services, and grant-making organizations. This particular body of research led to conclusions that differed across the different sectors of nonprofit organizations, especially within the five largest mentioned above. However, throughout the sectors, all of the factors studied were determined to be statistically significant, giving organizations across the United States good insight into managing their particular strategies and organizations as a whole.

Rooney’s (1999) research aimed to develop a methodology with more comprehensive and useful analysis of the costs and benefits of fundraising, as well as the total costs and net benefits associated with development efforts in general. The author, as well as others, stresses that there is a distinction between fundraising efficiency and effectiveness (Rooney, 1999), an issue not addressed previously. Throughout the research a framework is developed which focuses on the methodological changes necessary to improve both internal decision-making and external benchmarking and accountability practices, providing an excellent framework for nonprofits to follow in order to reach their most effective level of potential.

It has been stressed by many that for fundraising organizations, profitability and return on investment ratios are vital (William, 1999). This idea was embraced by the work undertaken in a number of studies including Sargeant et al.’s, 2006 analysis, which provides a means of benchmarking charity performance by focusing on the returns provided from direct marketing in

fundraising. The authors provide a guide for performance that can be utilized by many throughout the nonprofit industry, as they strive to build their most effective campaigns to raise funds. The findings provide, to those interested, the idea that most charities lose money on donor recruitment activities and that the overall returns accruing to all forms of direct marketing activity are comparatively low (Sargeant et al, 2006). Simply stated, direct marketing is a comparatively inefficient and expensive means of fundraising and a form that should be highly considered before being utilized.

Kaplan (2001) explores means of strategic performance measurement and management in nonprofit organizations through the use of the Balanced Scorecard, a relatively well-known tool that is now applied to the nonprofit sector. Implementing the use of the Balanced Scorecard in a number of nonprofit organizations, the author displays the ways in which it is most useful in building and maintaining the mission of the association. The Balanced Scorecard enables nonprofits to bridge the gap between vague mission and strategy statements and day-to-day operational actions (Kaplan, 2001, p. 369). This fact allows nonprofits to find the most effective way to reach the goals established by their mission, and determine the best means to go about their particular fundraising.

While there have been a number of valuable studies that have delved deeply into the inner workings of nonprofits fundraising effectiveness, providing vast amounts of knowledge, there still remain a number of more specific questions. As of now, the research conducted has been done so on a more global level, addressing questions that are seemingly all encompassing for the industry. At this stage it is advantageous to push the questions beyond the macro to more specific, micro items. With that said, the focus will now shift to a particular timeframe, the current economic crisis, a period in United States history when there is little money to be donated. The more pressing inquiry revolves around how it is that nonprofits have been able to continue to raise monetary funds in a time when the public has not had much to give. What strategies have created the greatest return? Do those strategies remain consistent across the differing sectors and kinds of organizations? These types of questions will be answered in the proceeding research, through a case study of Michigan nonprofits. Michigan, a state that has felt the economic downturn most severely, provides the perfect background to explore the work conducted by nonprofits as they attempt to continue working toward their missions.

Research Design

The basic design of this research is a series of case studies. The case studies will be conducted utilizing a specific set of questions that have been developed. These questions will be administered to an individual from each organization in interview form. The interviews will take approximately 1 to 1 ½ hours each.

The Sample

The sample for the study will be drawn solely from Michigan Organizations. Specifically, the foundations that will be selected, will be one from each of the following categories: educational, environmental and health. These particular categories have been documented as the three largest in the industry; therefore, they have the potential to provide the most substantial amount of information. A number of different organizations within each sector will be contacted directly to see which will be willing to be interviewed. Some of the organizations that will be contacted include: The Sparrow Foundation (have already agreed to be

interviewed), The University of Michigan Alumni Association (have already agreed to be interviewed), Michigan State University Alumni Association, The Michigan Conservation Association, Ecology Center (Ann Arbor), The Alliance for the Great Lakes and others.

Instrumentation

A designated individual from each organization will be personally interviewed utilizing a standard list of questions. The list of questions has been created with the aim to arrive at similar answers from every person interviewed, so that there is a chance of drawing connections between the different non-profits.

Below are the questions that will be utilized in each interview. These questions have been divided into three different sections: description of the organization, economic crisis focus and return on investment. The section “Description of the Organization” has been developed to elicit answers that will provide a clear picture of the goals and mission of the different organizations, as well as explore their overall fundraising and event activity. The second section of questions, “Economic Crisis Focus,” has been created so as to determine what ways the organizations have made changes throughout this difficult time. In addition, the hope is to find out which strategies have been most successful and received the best response. The last section, “Return on Investment,” will explore the successes of the fundraising and events that the organization has utilized. This section aims to discover how the different strategies have, or have not, produced a high amount of return for the non-profit.

Interview Questions

Description of the Organization:

1. Could you give me an outline of what your organization does and whom you serve?
2. Could you provide me with a mission statement for your organization?
3. What are some of the key ways your organization goes about raising funds?
4. Which area(s) do you emphasize?
5. Which area(s) are the most lucrative?
6. What are the key events that you host each year to raise funds?
7. Can you provide me with a description of the events that are the highest grossing?

Economic Crisis Focus:

8. In what ways do you feel your organization has been affected by the economic crisis here in the United States?
9. How have your money raising strategies changed since the start of the economic crisis?
10. In what way(s) do you think it has made it more difficult for your particular organization to raise funds?
11. What types of events do you think have been the most successful during these difficult economic times?
12. How have these new strategies impacted the events that you host?
13. Is there a particular “trend” in fundraising that you see evolving?
14. Has your organization hosted any special events as a result of the economic crisis?
 - a. If so, what were they?
 - b. How were they different from what you have done in the past?

Return on Investment:

15. To you/your organization, what does ROI mean?
16. Which of the events that you hold results in the highest ROI?

17. What changes in ROI for your events have you seen in the past 4 years?
 - a. Can you provide me with any numbers?
18. Have you seen any positive growth in ROI when utilizing different or new strategies?
19. How does the ROI of your events compare to the ROI from other fundraising efforts?
20. Have you seen any changes, for the positive, in the economic climate throughout the start of 2010?

Procedural Details

The first step of the procedure is to contact the different organizations that may potentially be willing to be interviewed. Once one organization from each of the three sectors (environmental, educational, and health) have been contacted and have agreed to be interviewed, a time will be set for the meeting to take place. The interview will be recorded (given the permission of the individual) and a transcript of each will be created once it has concluded. These individual transcripts will be studied and compared with the others to determine connections and similarities.

SUMMARY

This research aims to provide a guideline for future use in the events industry as it pertains to fundraising. The hope is that the results will display patterns and strategies that will prove helpful to organizations as they continue on their mission to raise funds for non-profits across the United States.

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