

## **Saving Face or Saving Society? Importing Private Sector Models to Nonprofit Fundraising: Conclusions, Constraints, and Cautions**

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*This paper examines private sector models imported to the public sector in the context of nonprofit fundraising. A review of current literature finds “bottom-line” approaches to management ineffective in nonprofit organizations, but indicates prescriptive benefits of public relations/marketing strategies. Research cautions that nonprofits must not conduct excessive fundraising and should carefully manage donor-fundraiser relationships. Future studies are needed to explore fundraising and should carefully manage donor-fundraiser relationships.*

### **Saving Face or Saving Society?**

All nonprofits must answer the basic performance question: what are the best practices that will secure and utilize scarce resources to fulfill the organization’s philanthropic mission? Nonprofit organizations compose a unique third sector of the public market with goals that are intended to “profit” society, rather than retain earnings for the organization’s shareholders. A nonprofit organization with adequate resources will repay the community with programs and resources for underserved populations. The first challenge nonprofit organizations face is the acquisition of capital. The recent increase in competition between nonprofit organizations, and from for-profit firms has led nonprofits to explore new ways of strategic measurement and management. Even with the rise in nontraditional strategies such as commercialization (Tuckman, 1998), there remains a significant need for nonprofits to supplement their income with donations in an effort to remain fiscally stable in the long term. This raises the question of

whether nonprofit organizations can apply models from the private sector to maximize charitable contributions and what implications this holds for the nonprofit sector and encompassing community.

The debatable role of private sector marketing techniques in nonprofit management is rooted in the theoretical differences in the behavior and management of organizations in the public versus private sector. Political scientists would propose that for-profit management strategies would not effectively translate to nonprofits because, as a type of public organization, nonprofits must operate in a more politically controlled environment. Government regulations imposed by the IRS would in theory limit the freedom of nonprofit managers to leverage resources to apply for-profit methods to fundraising strategies. Economists would similarly argue that because nonprofits must devote earnings to programs that benefit the public, as opposed to shareholders they would be unable to monetarily incentivize individuals to donate by using strategies developed by private firms attract purchasing customers.

From an organizational behavior and management perspective however, one would expect successful private sector methods to be successful as well as prescriptively beneficial for nonprofit organizations to increase donations. This theory adheres to current literature that demonstrates overwhelming similarity in relationships, behaviors, and management in the public versus private sector. Boyne (2002) examined the differences in public and private management in relation to the organization's environment, goals, structures, and managerial values. Boyne found only weak support for distinctions between public and private management in that public firms face more bureaucratic structures, and public managers have lower materialistic values as well as lower organizational commitment. Rainey & Bozeman (2000) similarly concluded that all organizations are public to some degree. Rainey & Bozeman's study of private versus public firms found that differences in firms' ownership, funding, and political forces exist across a non-exclusive spectrum of publicness. These findings indicate that all public and private organizations operate in comparable environments and face similar constraints, meaning nonprofits can look at examples of marketing in the private sector to "market" the organization to potential donors. Such similarity predicts the success and applicability of private sector management models in nonprofit fundraising. Furthermore, as Daft (1989) points out, all organizations are open

systems that are influenced by external factors beyond their control, actively responding to their environment. Analogous responses imply that because both private and public firms operate within the context of greater cultural and social norms. Thus, nonprofits can in theory use for-profit marketing strategies to leverage public perceptions to their advantage.

The majority of current literature regarding performance in the nonprofit sector points to the challenge nonprofits face when developing accurate measures of performance. Operating under the assumption that an organization's effectiveness can be determined by its efficiency (Eisenhardt, 1989), for-profit firms use financial reports to measure and portray performance. However, there has been little empirical support for the use of cost efficiency to demonstrate a nonprofit's effectiveness. Research shows that "bottom line" strategies in nonprofit management, that focus on minimizing administrative expenses do not result in higher individual, foundation, or corporate contributions (Frumkin & Kim, 2001). Additional studies support the notion that "objective" measurements of effectiveness bear little weight in the judgments of an organization's current stakeholders (Herman & Renz, 1998).

Kaplan (2001) looked beyond challenges in strategic measurement by examining private-sector management techniques in the nonprofit sector. Kaplan contextualizes his study by utilizing the aforementioned argument, that financial measures give for-profit firms a clear long-run objective, but provide "a constraint rather than an objective" (2001, p. 354) for nonprofits. Kaplan however, expanded upon the topic to explore nonprofit management strategies based on "Balanced Scorecards", developed originally by private firms to measure market share, customer retention, new customer acquisition, and customer profitability. Kaplan's sample included both nonprofits, in which Kaplan actively facilitated that adaption of Balanced Scorecards and organizations that independently adapted this approach with no outside assistance. Kaplan observed that nonprofits pursuing customer and internal measures of success: recognition, ease of giving, fundraising, and volunteer/staff development in conjunction with financial measures of efficiency experienced dramatic increases in contribution levels. Kaplan attributed the

increase in contributions to nonprofits' efforts to target specific donor and market segments. Kaplan's findings indicate that nonprofits using customer-driven strategies more effectively focus attitudes and actions at every level of operation towards the organization's mission.

Nonprofit organizations take a variety of approaches to fundraising such as, formal operations, internal operations, and interactions with the organization's institutional environment. Research shows that nonprofit organizations can use professional fundraising staff to align principals and agents in pursuit of the organization's fundraising goals. Hager, Rooney, & Pollack (2002) reported on data from a national survey of nonprofit organizations in an effort to informatively describe and discuss the relationship between development staff size and volume of contributions. The authors observed that all nonprofits conduct fundraising activities, even without the use of professional fundraising staff, by relying instead on internal staff and relationships with external grant making foundations. Nevertheless, executives, directors, volunteers, and other staff members were more involved with fundraising in organizations with a development staff person. Additionally, there was an increased presence of volunteers in organizations who hired professional fundraising staff. Although fundraising planning and development is part of all executive directors' job functions, the authors indicate that the presence of an internal fundraising professional serves to move the fundraising agenda forward and make it a priority for the executive director and others. This supports Kaplan's indicators for increasing the success of fundraising activities by using strategic fundraising to effectively focus and align all levels of the organization. As Hager, Rooney, & Pollack note, marketing professionals have historically served the private sector exclusively, and smaller nonprofit organizations are less likely to employ formal fundraising staff. This further indicates the need for all nonprofit managers to consider incorporating professional fundraising techniques into the organization's strategy and staffing.

The case for nonprofits to more actively promote the organization to donors is supported by Waters' studies that examine the value of relationship marketing and fundraising in the nonprofit sector (2008 & 2009). Nonprofit organizations depend on recurring donations as a reliable stream of income. Waters (2008) conducted an anonymous web-based survey of donors to a nonprofit healthcare

organization using Hon & Grunig's Organization-Public Relationship (OPR) scales to measure and evaluate trust, commitment, satisfaction, and balanced power in donor/organization relationships. Waters found a significantly positive correlation between OPR scores and donors' level and frequency of giving. Major gift donors and repeat donors rated the organization higher on every measure, and repeated donors evaluated their giving as a communal relationship, compared to one-time donors who considered their transaction more of an exchange relationship. These results indicate that nonprofit organizations should devote more attention to appealing to current and potential donors. According to stakeholder theory, for an organization to be effective it must operate in ways that satisfy the goals of both stakeholders and managers (Donaldson & Preston, 1995). Waters' research shows that the same holds true in nonprofit organizations. Just as for-profit organizations are expected to deliver a product, donors expect nonprofits to deliver their philanthropic mission. Donors are more likely to give and continue giving when they are satisfied that the organization has acted in a socially responsible way that aligns with and achieves the organization's stated goals. As Waters points out, nonprofit managers can use public relations strategies developed within the private sector to illustrate performance. Though nonprofits do not produce a tangible product to show donors, they can build relationships with donors by communicating the organization's accomplishments through publicly released performance bulletins, donor-tailored newsletters, and annual evaluation reports. Nonprofits who apply and devote resources to public relations generate higher and more frequent donations at all gift levels.

To more precisely determine how nonprofits can use measures of OPR, Waters conducted a follow-up study applying coorientation methodology to relationship management in organization-donor relationships. Coorientation methodology enables an organization to determine if two parties agree, perceive agreement, and are accurate in their perceptions of an issue. Waters (2009) combined OPR and coorientation scales to measure the relationship between the fundraising team and charitable donors in a random survey of eight hundred individuals who donated to a nonprofit hospital. Waters found that even when donors rated their relationship positively based on OPR scales, there were significant discrepancies between the fundraising teams perception and the donors' perception. Fundraising teams felt the

relationship power was more evenly distributed, did not perceive differences in donor perceptions of agreement, and overestimated donors' views on every variable. These discrepancies imply that fundraisers are more optimistic than donors on the status of their relationship despite the overall positive view donors have of the relationship. Failure to accurately gauge donor perceptions indicates the need for fundraisers to continue dedicating resources towards cultivating relationships so organizations may more effectively understand and engage donors. Results lend additional strength to Waters' (2008) prior conclusion that nonprofits both can and should utilize public relations strategies to manage donor perceptions of the organization.

The importance of networking has been widely recognized in the private sectors' approach to public relations. Increasing social capital allows organizations to take advantage of external relationships as a means to build value. Strauss (2010) examined the value of the social capital-based model for public relations efforts in under-resourced nonprofits. Strauss analyzed widely accepted empirical studies and literature to propose a circular framework through which nonprofit managers use public relations techniques to continuously assess, identify, and build upon relationships that generate bonding social capital. Though additional empirical studies are needed to thoroughly test Strauss' model, the sound theoretical basis, points to the practical use of strategic planning and implementation of public relations in nonprofit organizations.

The studies discussed thus far address the utility of public marketing strategies for nonprofits to appeal to a wide pool of potential donors. Slyke and Brooks (2005) estimated the impacts of specific socio-demographic and economic characteristics on the success of different donor development approaches. The authors combined data from interviews with nonprofit fundraising executives and survey results from Atlanta, GA residents to measure determinants of giving in nine specific demographic groups. The findings support distinct differences between each group's motivations to give. Using models of who gives, why they give, and what would cause them to give more, Slyke and Brooks suggest six distinct motivators nonprofits can use to more efficiently focus their fundraising appeals. This study supports the general consensus that public relations strategies are useful in the nonprofit sector, but with

the additional implication that strategies must be tailored to the organization's specific target market to be most effective. This aligns strongly with Kaplan's prescription for nonprofit managers to place the organization's specific donor group at the center of management efforts (Kaplan, 2001).

With increased visibility to donors comes a heightened need for an organization to manage its public perception. Stride and Lee (2007) draw upon existing branding theory in an exploratory study to examine the challenge and value of a building a nonprofits "brand". Stride and Lee analyzed existing sources of interview data to identify four themes; internal conceptualization of a brand, process of brand development, ongoing management of the brand, and the role of organizational values in branding. The authors observed that while proactive brand management can strengthen and focus nonprofit operations, managers face challenges unique to the nonprofit sector. Their study found that values are perceived internally and externally as more significant to the construction of the nonprofit brand. This idea supports the need for nonprofit managers to first identify and then build values that appeal to both existing stakeholders and the public. Though proactive brand management proved valuable in fundraising efforts, highly externalized commercial styles of brand management do not directly translate to the nonprofit organizations. Despite clear evidence in aforementioned studies that it is possible for nonprofit managers to effectively adopt public sector techniques, these findings clearly indicate that this does not invariably hold true.

Much of the existing literature focuses on the benefits of private sector marketing techniques for individual nonprofits. The tentatively promising support for the use of private sector marketing strategies in nonprofit fundraising has spurred the development of "how-to" guides for nonprofit management (Burnett, 1992). These guides encourage nonprofit firms to devote funding, intended for charitable programs, towards hiring and supporting specialized public-relations teams (Kotler, 1979.) Such guides focus intently on the success of organizations that model private sector approaches to fundraising. However, the authors fail to mention unforeseen costs to both individual organizations and the nonprofit sector as a whole. Nonprofit managers should also be aware that more is not always better when marketing in the nonprofit sector (Okten & Weisbrod, 2000).

Organizations sacrifice resources in the short term to engage in public relations and marketing strategies that will theoretically benefit the organization in the long run. Empirical research shows this does not hold true for all nonprofit sectors. Okten & Weisbrod (2000) used large-panel IRS data to compare the marginal return on fundraising activities in nonprofit organizations in seven sectors. Okten & Weisbrod observed that advertising and marketing had a countervailing effect on returns. Fundraising directly increased donations, but at the indirect cost of harming donors' perception of the organization's net revenue used for charitable programs. Okten & Weisbrod concluded that some sectors as a whole underperform in fundraising activities, while others are oversaturated. In oversaturated sectors the marginal cost of fundraising exceeded marginal returns, and nonprofits gained no overall benefit from public relations efforts. Okten & Weisbrod's study acknowledges that nonprofits have a real incentive to market themselves to potential donors by publicizing the organization's quality and social services, but increased competition within the sector appears to mitigate the payoffs for the organization (2000). Organizations must be cautious of fundraising beyond the point of marginal returns. These findings support that marketing has its advantages for nonprofits only when nonprofits first consider the organization's overall environment, costs, and benefits.

Additional research shows fundraising can effectively harm performance and perceptions of nonprofit organizations. Just as Okten & Weisbrod cautioned, wasteful spending in effect negates the ability of nonprofits to effectively fulfill the organization's philanthropic purpose. Young (2004) took a similar macro perspective to question whether more aggressive marketing strategies benefit the community as a whole. Using data from prior studies, Young measured whether competition for donations among nonprofits significantly increased total giving, or instead caused a largely fixed pool of charitable dollars to be redistributed among existing organization. Young observed a growth in overall giving in the past two decades. However, donations over time rose in direct relation to inflation and the number of nonprofit organizations. The overall increase represented no absolute increase in charitable donations. Young concluded that while using resources to compete for donation dollars can result in higher returns for an individual organization, fundraising efforts are wasteful in the aggregate. This



further implies that in sectors with a high number of nonprofits, organizations and the community alike would benefit more from devoting scarce resources directly to the organization's services and programs than more aggressive marketing strategies.

The quality of evidence offered on the role of private sector models into nonprofit fundraising varies greatly. Although the majority of recent literature uses similar performance measures of donor satisfaction and retention rates in addition to charitable contributions, some continue to rely solely on financial returns, which have been found to not accurately represent nonprofit performance (Frumkin & Kim, 2001). The rapidly growing number of nonprofit organizations in the recent decades poses further challenges to studying the nonprofit sector. Nonprofits increasingly vary in type, size, and function. 501©3 classification encompasses a broad range of organizations that vary from public-serving educational, religious, charitable, and scientific nonprofits to member-serving associations. Wide differences in sources of funding between nonprofit sectors directly impact the priority and direction of an organization's fundraising efforts. This makes drawing general conclusions about nonprofits in the aggregate problematic. Some studies account for this by including samples of organizations across a wide range of sectors (Okten & Weisbrod, 2000), using a large population size (Frumkin & Kim, 2001), or repurposing established validated data (Stride & Lee, 2007; Hager, et al., 2002). Studies that rely heavily on localized samples (Slyke & Brooks, 2005) or particularly small samples (Waters, 2008) must be approached with due caution.

Nonprofit managers are just beginning to explore the role of private sector strategies in nonprofit fundraising. Because this remains a relatively unexplored field, researchers may not find appropriate examples of existing data and measures, and choose instead to design donor/organization interactions according to their needs (Waters, 2008; Waters, 2009). Combined with the aforementioned challenges of studying the nonprofit sector, studies in which authors are involved in piloting management strategies (Kaplan, 2001; Waters 2008) may not be as reliable as those that rely on independently collected data. It should be noted that the studies cautioning against the unforeseen costs of fundraising (Okten & Weisbrod 2000; Young 2004) use significantly larger samples and more quantitative measures than

studies in support of marketing in the nonprofit sector. Nevertheless, this distinction can be attributed to the differences in the authors' hypothesis which change and define the amount of data and type of data required to draw valid conclusions.

As a whole, the research reviewed in this paper was conducted with due consideration to sample, validity, and design. However, the majority of studies addressed have been conducted prior to or within the past decade in juxtaposition with the expansion of the nonprofit sector. Numerous studies highlight that the sector is seeing a "new...diffusion of full-time and part-time fundraising staff to nonprofit organizations in all subsectors and of all sizes" (Hager et al., 2002, p. 315). In order to accurately examine the nonprofit sector as it exists today, this topic should be reconsidered as more recent data becomes available.

Based on a review of the existing literature and empirical research, findings to date support the use of private sector models to strategically direct and manage fundraising in the nonprofit sector. Studies examining performance measures at a glance support the economists' perspective that public and private sector businesses are driven by different incentives (Whorton & Worthley, 1981). Empirical research clearly demonstrates that nonprofits cannot display for-profit measures of performance as a way to inspire confidence and increase giving (Frumkin & Kim, 2001). However, more expansive studies find that although nonprofit managers must adjust measures of success, these differences do not prevent the use of private sector strategies to successfully target and retain funders in the nonprofit sector. In contrast, nonprofits who focus on and implement customer-driven strategies from the private sector are more effective at motivating and focusing agents' fundraising efforts (Kaplan, 2001).

There is no supporting evidence from the political perspective that nonprofit organizations are hindered by a more politically-controlled environment. Private and nonprofit organizations alike must strategically interact with external forces, and given limited resources, position themselves to take advantage of these interactions. There is no indication that external relationships, political or otherwise, constrain nonprofit fundraising activities. In contrast, empirical studies repeatedly demonstrate that nonprofits can benefit from external relationships by using public relations strategies to appeal to donor

markets. (Waters, 2008; Waters, 2009; Strauss, 2010). Nonprofit managers can best optimize private sector marketing strategies by tailoring fundraising appeals according to specific population demographics, as is commonly seen in private sector firms (Slyke & Brooks, 2005).

The evidence as a whole supports the organizational theory and behavior management view that there are no appreciable differences in managing public and private organizations. Empirical research repeatedly finds that organizations incorporating management strategies and methods from the private sector generate higher charitable contributions. Thus, managers of nonprofit organizations should look to examples of success in the private sector when designing and organizing fundraising strategies in an effort to promote and achieve the organization's mission. Current literature leaves open the question of whether increased fundraising activities benefit the sector and society as a whole. Though conflicting studies do not argue against empirical support for marketing in individual nonprofits, authors warn that private sector methods should be applied only under careful consideration. A wider examination of a combined nonprofit sector reveals that the benefits of fundraising activities are mitigated by environmental factors. Oversaturation of fundraising efforts can harm organizations that expend resources on marketing beyond the point of marginal return (Okten & Weisbrod, 2000). Future studies should examine the overall performance of highly saturated nonprofit sectors, and whether more aggressive fundraising strategies can/does perpetuate competition that leads to wasteful spending, and detracts from the sector's philanthropic functions.

From the public's perspective, not only do increased fundraising efforts call in to question the validity of philanthropic organizations, such attempts may not inspire more overall giving from the community. The nonprofit sector has achieved no absolute increase in charitable donations despite the proliferation of literature that cites the benefits of private-sector marketing strategies (Young, 2004). This aligns with the prominent view that public managers can apply lessons from private management only with "serious, but cautious consideration" (Boyne, 2002). Empirical evidence does not debate the benefit of carefully planned and managed marketing strategies for singular firms seeking to increase donations. However, in order to answer the broader question of whether organizations should continue to model "all

for one” for-profit approaches, future research is needed to examine the collective and long-term implications of using private sector strategies to optimize nonprofit fundraising.

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