

# Governance and Professionalization in Fundraising Management

## Thesis

presented at the Faculty of Economics and Social Sciences  
of the University of Fribourg (Switzerland)

by

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from Ellwangen / Jagst (Germany)

in fulfilment of the requirements for the degree of  
doctor of Economics and Social Sciences

Accepted by the Faculty of Economics and Social Sciences  
May 19th 2014

at the proposal of

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Fribourg, 2014

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## Foreword

'Fundraising is the gentle art of teaching the joy of giving.'

Henry A. Rosso (American fundraiser)

My encounters with the selfless, warm, open, and inquisitive people involved in fundraising reinforced my decision to choose this particular research topic.

For ten years now I have been teaching fundraising management, nonprofit management and arts management modules to undergraduates and Master's degree students, and in the continuing education programs at the ZHAW Zurich University of Applied Sciences, and I have witnessed first-hand the tremendous professionalization that has taken place in Swiss charities and the developments that have occurred in Swiss museums.

After working in educational management, in teaching, and as a consultant in the cultural and nonprofit sector, I decided to take my qualifications one step further. My Master's thesis at the University of Constance entitled 'Global Governance and the Role of International Organizations - the Example of the International Labor Organization' had already been on a topic related to nonprofit management. For my dissertation, I have remained faithful to that subject area. However, while my Master's thesis was written from the political science and comparative policy point of view, examining organizations as entities of a global governance system, this time I decided to look inside organizations and to focus on organizational theory, sociology, and organizational economics.

This dissertation project is cumulative in nature, consisting of four research projects, all of which deal with organizations' fundraising activities and developments in terms of the professionalization of their managements and governing boards concerning their fundraising activities. The object of investigation of the first two research papers is Swiss museums, while the other two deal with Swiss charities. The data for the studies on Swiss museums were collected in cooperation with the Swiss Museums Association (VMS), the data on Swiss charities were collected in collaboration with the ZEWO Foundation, the Swiss certification authority for nonprofit organizations collecting donations. Since each set of two articles deals with the same dataset, some duplication in the text cannot be avoided.



Diana Betzler

The research studies that form part of this dissertation were presented and published on a number of occasions and in various publications, respectively, during the last few years of this research project.

#### Presentations:

- Betzler, D., and M. Gmür 2014: "The Impact of Professionalization and Rationalization on Fundraising Performance", The 74th Annual Meeting of the Academy of Management, August 1-5, 2014, Philadelphia, PA.
- Betzler, D., and M. Gmür 2014: "The Impact of Professionalization and Rationalization on Fundraising Performance", International Conference of the Society of Third Sector Research (ISTR), July 22 -25, 2014, Muenster.
- Betzler, D. 2014: 11. "Professionalism and Rationalization in Fundraising Management: A Contingency View of Fundraising Capability", 11<sup>th</sup> International NPO Research Colloquium, 3.-4. April 2014, Johannes Kepler University Linz (Austria).
- Gmür, M., and Betzler, D. 2014: „Fundraising Effizienz: Methodologische Herausforderungen und empirische Befunde“, presentation held at an internal research colloquium at the University of Innsbruck (by invitation of Professor Julia Brandl) on 29 January 2013.
- Betzler, D. 2012: "Towards Fundraising Excellence in Museums - Linking Governance with Performance", International Conference of the International Society of Third Sector Research (ISTR), July 10-13 2014, Siena.
- Betzler, D. 2012: „Mehr Fundraising-Erfolg an Museen - Die Beziehung zwischen Governance und Fundraising Performance“, 10<sup>th</sup> International NPO Research Colloquium, 29.-30. März 2012, Faculty of Economics and Social Science of the University of Fribourg/Freiburg.

#### Publications:

- Betzler, D., and M. Gmür 2014: 11. "Professionalisierung und Rationalisierung im Fundraising-Management: Einflussfaktoren und ökonomische Effekte", In *Proceedings of the 11th International NPO Research Colloquium*, forthcoming.
- Betzler, D. 2013. "Factors of Board Governance and Fundraising Success", *Journal of Cultural Economy*, 1-22.
- Betzler, D., S. Aschwanden. 2011. *Ergebnisse der Befragung Fundraising an Museen in der Schweiz (2009)*. Winterthur: Center for Arts Management.
- Betzler, D., and M. Gmür. 2012. "Towards Fundraising Excellence in Museums— Linking Governance with Performance", *International Journal of Nonprofit and Voluntary Sector Marketing* 17 (3): 275-292.
- Betzler, D. 2012. "Fundraising-Reifegrad und Performance an Museen". In *Performance Management in Nonprofit-Organisationen*, edited by Gmür, Markus; Schauer, Reinbert; Theuvsen, Ludwig. 292-302, Zürich: Haupt.

## **Acknowledgements**

This doctoral thesis would not have been possible without the generous support of a number of people and institutions. First and foremost, I thank my supervisor, Professor Markus Gmür, PhD, who continually gave me valuable advice and motivated and guided me time and again. Next, I thank Professor Silke Boenigk, PhD, for agreeing to co-supervise my thesis. I am also indebted to Martina Ziegerer of the ZEWÖ Foundation, the Swiss certification authority for nonprofit organizations collecting donations, and to David Vuillaume of the Swiss Museums Association (VMS) for the data provided and the trust placed in me in dealing with the data. Further, I wish to thank Stefan Aschwanden for his support in collecting the museum data.

In addition, I would like to thank the School of Management and Law at the Zurich University of Applied Sciences (ZHAW) for their financial contribution and, in particular my line manager Bruno Seger as well as my colleagues for allowing me the time to pursue my research. Furthermore, I would like to thank Kristine De Curtis and Danielle Adams-Hausheer for their editing in English.

Finally, I thank my friends and family, especially my husband Roman Lehner, who took on many of those daily chores and continued to motivate me with a great deal of understanding and much patience. Many thanks also to my children Linus and Jakob, who learnt to cope confidently with many situations without their mother's support. I am also grateful to my siblings and their families, my mother Ingrid Betzler, and my understanding friends for always being there for me. It makes me sad that I am no longer able to present a copy of this thesis to my late father Utto Karl Betzler, who recently passed away. He always strongly supported me in my plans and I am very grateful for the time I was able to spend with him.



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# INTRODUCTION

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Fundraising management is understood here as ‘the systematic procurement of needed resources without giving a market adequate consideration.’ (Urselmann 2007). The term ‘fundraising’, broadly defined, can comprise the acquisition of public funds or even the raising of capital for a business venture. In the present context, its scope will be limited to the raising of private funds for the purposes of nonprofit organizations.

This dissertation project is cumulative, consisting of four research projects on fundraising management, all of which deal with the development towards professionalization of management and board governance in order to improve the effectiveness of fundraising. The first two research papers deal with Swiss museums, the other two with Swiss charities.

## 1 Field(s) of Investigation

Nonprofit organizations (NPOs) are private, non-governmental organizations which produce public, social, and humanitarian benefits. They have a minimum level of formal organization, possess a minimum of self-government, and involve some meaningful degree of voluntary participation. NPOs can generate profits. However, they do not distribute them to their members but instead reinvest them into their organizations’ missions and goals (Helmig, Lichtsteiner, and Gmür 2010; Salomon and Anheier 1997; Helmig et al. 2011). NPOs function as social integrators (Habermas 1988), fostering democracies (Reid 2003), for example as “schools or laboratories of democratic citizenship” (Alexander, Nank, and Stivers 1999, 453). They mitigate negative political and economic developments, control state institutions, function as alarm and criticism of ongoing social developments, and foster social innovations (for functions of NPOs see amongst others, Boris 2006). NPOs are manifold in form and activities. Often, they are mandated to fulfil public missions (Alexander, Nank, and Stivers 1999), which blurs public and private spheres. In practice, in many democratic countries, and thus also in Switzerland, NPOs are found in public legal forms as well as in private forms of ownership, which makes clear categorization difficult. They are found in the fields of humanities, health, welfare provision, education, community development, international relations, the environment, and in arts and culture.<sup>1</sup> The specific characteristics of the

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<sup>1</sup> The official categories of the Johns Hopkins Comparative Nonprofit Sectors Project are: culture and creation, education and health, social services, environment, development and housing, civic and advocacy, philanthropic intermediaries, international organizations, religious congregations, business and professional unions, and others (Helmig et al. 2011).

nonprofit sector depend on the public, legal, cultural, economic, and social conditions of the respective country (Salomon and Anheier 1997).

In many countries, the nonprofit sector is growing, thus gaining increasing economic and social importance. In Switzerland, which is the national environment of the empirical research presented here, independence, self-help, and individual responsibility have strong roots (Helmig, Lichtsteiner, and Gmür 2010), social economic involvement of churches and communities is active, and member-oriented social systems (organized, e.g., as associations and cooperatives) have a long tradition. These circumstances have resulted in a well-developed nonprofit sector (Helmig et al. 2011; Helmig, Bärlocher, and Schnurbein 2009). There are some 80,000 associations and 18,000 foundations in Switzerland (Helmig, Lichtsteiner, and Gmür 2010). 6.9 percent of the economically active population is employed in the nonprofit sector, and a further 4.5 percent are volunteers (Helmig et al. 2011). The great commitment of the Swiss people is also reflected in their fundraising activity. According to the very latest donations monitor (ZEWO 2013), in 2012 the Swiss certification body for nonprofit, donation-collecting organizations (ZEWO) estimates a total amount of 1.616 billion Swiss francs from donations in Switzerland (more than 200 Swiss francs per capita). More than one billion Swiss francs in donated funds went to ZEWO-certified charities in 2012.

The generally favorable conditions for raising donations in Switzerland might easily lead to the assumption that the business of fundraising is an easy one for NPOs. This might be true for some. However, as in other western countries, nonprofit organizations' fundraising staff in Switzerland is increasingly under pressure to improve their performance and become more professionalized (Eikenberry and Kluver 2004). Fluctuating donor behavior caused by social changes, but also increasing competition among NPOs for donations market shares (Thornton 2006) are possible reasons for this development. In addition, more and more public institutions, investors, and donors demand accountability reports on the use of effective and efficient use of private donations. The moral pressure is increasing for organizations to publish their income and expenditure figures, account for how they use the donated funds and be compared with the work and performance of other nonprofit organizations (for example Eikenberry and Kluver 2004). This development is also observed in Switzerland. The number of organizations that are certified by ZEWO for their good handling of donations continues to increase. Furthermore, Chen (2009) has found evidence that watchdog organizations have a positive impact on donation behavior.

The situation with regard to fundraising varies considerably from one nonprofit sector to the next and poses different challenges (Anheier 2005). Organizations in the education sector, for example are concerned with turning their alumni into donors and to establish partnerships, especially with the business sector, in order to finance educa-

tional programs and professorships. In the health sector, the question of what belongs to the public health mandate is predominant, and foundations and associations occupy a niche market in which they maintain communities that support each other and fight for attention and money to fund research projects to study specific diseases.

The studies of this dissertation examine two very different areas of the Swiss non-profit sector, charities and museums:

Charities are the most 'pure' segment of the nonprofit market. They exist to provide a social or public benefit and are characterized 'as an intermediary between public and private donors (who provide resources, usually in the form of time or money) and beneficiaries (who are the ultimate recipients of the donors' gifts)' (Hyndman and McDonnell 2009). They operate in diverse fields of health, social services, environment, philanthropic intermediaries, and international organizations. Specifically in the charity field, expectations are growing in terms of transparency and accountability, and there is a trend towards strategic regulation and 'the importance of 'good' governance' (Hyndman and McDonnell 2009).

A large number of international charity organizations are located in Switzerland, partly due to its historic role as a neutral state; Switzerland is also the headquarters of many UN agencies. In fact, it has been home to international organizations for more than a century. To date, it has adopted a "headquarters agreement" with 25 international organizations, 22 of which have their headquarters in Geneva, two in Berne, and one in Basel. In addition, nearly 250 non-governmental organizations which act as advisors to the United Nations are based in Switzerland (Switzerland 2014). Together with the subsidiary principle and the helping attitude of many Swiss people, an above-average charity scene has developed in Switzerland. The largest and most important organizations are amongst the 505 members of ZEWO, which is collecting data of annual donations, management, and organization structure. Currently, the members of ZEWO represent approximately 70 percent of the total of 1.616 billion Swiss francs per year raised by donations. Thus, there is a good data pool concerning charities in Switzerland. Based on ZEWO data for 2010, we know that more than 40 percent of the funds that finance charities in Switzerland are provided by private donations, 35 percent by public financing; about 25 percent comes from the charities' own social service revenues. The charity sector is growing in income and employees. Given these dynamics, it is obvious that especially in the charity scene there is a tendencies for fundraising staff to become more professionalized (Suárez 2011; Marudas and Jacobs 2010; Callen, Klein, and Tinkelman 2010; Bloland and Tempel 2004). We also know that organizational structures are permanently adapted to work in ways that are more focused and therefore more effective and efficient (Brown 2004). On the other hand, little is known with regard to the organi-

zational fundraising capabilities that charities, in particular, have developed in recent years.

In contrast to charities, museums have different stakeholders whose needs must be addressed. These needs include conservation, aesthetic pleasure, cultural education, and research. Museums are complex nonprofit organizations which are often described as having mixed forms of governance incorporating both public and private authorities (Schuster 1998) and which operate in multifaceted environments. By national comparison, museums are organized and steered very differently, depending on historic developments and the respective public mission and goals. While museums in the United States are much more rooted in the private sector, and thus are funded more privately (Anheier and Toepler 1998; Toepler and Dewees 2005; Hughes and Luksetich 2004; Song and Yi 2011), the museum organizations in Switzerland are still strongly steered and supported by the state. Museum funds usually consist in equal measure of public subsidies (40 percent), self-earned income through museum admissions and other services generated by themselves (40 percent), whereas only around 20 percent are generated through fundraising (Betzler and Aschwanden 2011). However, in 2011 the Federal Office of Culture announced a long-term reduction in subsidies to cover operating expenses and project funding, as well as other constraints (Federal Office of Culture, Message of 23 February 2011 to promote culture in the period from 2012 to 2015). The museums are now called on to either reduce benefits, earn more money by self-generated income, or generate more donations through fundraising. In addition to relatively good public support, the Swiss museum scene benefits from a strong tradition of patronage and philanthropy. In fact, without the commitment of private collectors some museums would not be able to exist. In addition, many museums have strong social ties and are willingly supported by all kinds of social actors who are dedicated and committed to their continued existence. Compared to charities, museums are usually small organizations whose management staff is less professionalized (Chang 2010). In Switzerland, with few exceptions, they virtually have no specific fundraising staff (Betzler and Aschwanden 2011). How does fundraising work in such organizations? To examine the development of fundraising management in nonprofit organizations, it is presumed that the role of their voluntary governing boards, on the one hand, and a focus on specific fundraising activities by general staff, board members, and volunteers, on the other hand, are essential.

## **2 Questions of Professionalization and Governance**

As shown in the previous section, a high dynamics of change with respect to the requirements of nonprofit organizations with regard to fundraising can be observed. In considering the situation of museums and charities in Switzerland, a number of

important questions arise concerning the governance and management of their fundraising activities:

- Which stages of development do organizations undergo in the process of reaching fundraising maturity? Do these developments lead to fundraising success?
- What is the role of the governing boards in fundraising management? What are the roles of the governing boards that lead to fundraising success?
- What are the professionalization tendencies of fundraisers? Can fundraising in Switzerland be viewed as a profession or is it simply an occupation?
- How can nonprofit organizations measure the degree of their organizational capability to raise funds? On which external factors does fundraising capability depend?
- When is fundraising management successful? Is it worth building up organizational fundraising capabilities?
- How can fundraising success be measured? What is the behavioral logic of nonprofit organizations in the fundraising market?

Before outlining what answers the current state of science can give to these questions, the following will outline how fundraising management has developed as an academic discipline in order to better position my research questions within the context of the research field.

### **3 Fundraising Research**

Nonprofit management and voluntary sector studies are a specific research discipline that evolved in the US in the late 70s with the foundation of the Program on Non-Profit Organizations (PONPO) at Yale University (Anheier 2005). As a result, numerous research institutes were set up all over the world (for an overview see Anheier 2005), and international research journals like *Nonprofit and Voluntary Sector Quarterly* (1972), *Voluntas* (1990), and *Nonprofit Management and Leadership* (1990) were launched. Fundraising management became a distinctive area within this research discipline very early on and later evolved almost as a separate research discipline (Buchanan 1994). In fact, in the second year of publication of the *Nonprofit Management and Leadership Journal*, already as many as three out of five articles dealt with the issue of fundraising (Useem 1991; Pink and Leatt 1991; Engdahl 1991). A few years later, specific peer-reviewed research journals on fundraising were created, such as the American journal 'New Directions for Philanthropic Fundraising' (founded in 1993), which is sponsored jointly by the Association of Fundraising Professionals (AFP) and Indiana University Center on Philanthropy, or the 'International Journal of Nonprofit and Voluntary Sector Marketing' (founded in 1996), the *Journal of Nonprofit and Public Sector*

Marketing (founded in 1993), and the International Review on Public and Nonprofit Marketing (founded in 2004).

At the same time, according to Bloland and Tempel (2004), the fundraiser in practice became more professionalized and fundraising as an occupation was more recognized, at least to some extent, in some regions of the world (for Switzerland, see Study 2). An almost unlimited range of practical fundraising guides and handbooks were released (for example, Klein 2011; Haibach 2006; Buss 2012; Greenfield 2001; Urselmann 2007; Sargeant and Shang 2010; Sargeant and Jay 2004), and countless research and consultancy institutes for fundraising emerged in the 1980s, including the Institute of Fundraising UK (1983), the Fundraising Institute Australia (FIA) (1988), the Fundraising Institute New Zealand (1991), all challenged to translate the results of fundraising research into practice.<sup>2</sup> A review of these handbooks and guides shows that practice and research in fundraising management do not seem to really cross-fertilize. This is supported by the view often found in fundraising literature that fundraising knowledge is tacit, judge able (Bloland and Tempel 2004), and very much connected to fundraisers' personal characteristics like their physical appearance (Price 2008). However, according to professionalism theory, it is a key function of research to produce the body of knowledge that a profession needs in its development. According to Abbott (1988, p. 9), 'only a knowledge system governed by abstractions can redefine its problems and tasks, defend them from interlopers, and seize new problems'. Thus, only the interaction of practice and research can lead, over time, to a generally recognized fundraiser profile.

The emerging fundraising research today is wide but dispersed and seems to offer few general theoretical foundations that can be applied in practice: 'The fundraising profession has not paid extensive attention to theory building and does not have elegant and practical theories to apply to its work.' (Bloland 2004). The range of existing fundraising research can be with reference to Lindahl and Conley (2002) categorized into three main categories: The first includes donor-related studies in which research interest focuses on donor motivation and on developing a good relationship to the donors; these usually have a marketing perspective (for example, Miller and Wyk 2000; Nichols 1996; Sargeant 1998; Ariely, Bracha, and Meier 2009). The second category concentrates on studies on the fundraiser as a professional, containing studies on work and career of fundraisers (for example, Duronio and Tempel 1997), studies on compensation (for example, Beem 2001; Mesch and Rooney 2008), and studies on the personal skills and characteristics of successful fundraisers (for example, Price 2008). The third is by far the largest category: studies on fundraising management.

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<sup>2</sup> Exception: The US Giving Institute has already been in existence since 1935.



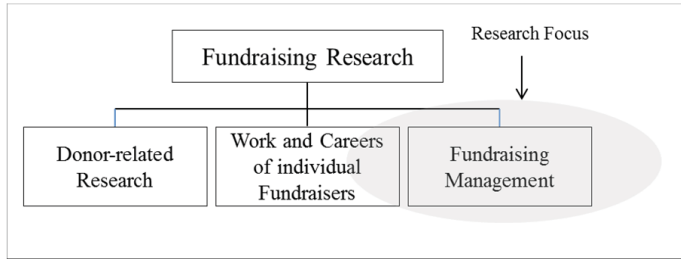


Figure 1. Categories of Fundraising Management

To address the research questions of these studies, the category of donor-related research can be excluded, as this area is outside of present research interests. The studies on the work and career of fundraisers are only of interest inasmuch as the effect of professional fundraisers on an organization's operations is considered (see this chapter, sections 5.3 and 5.4). The aim here is to answer the research questions from the perspective of corporate nonprofit organizations, in particular. Therefore, subsequent research can be positioned almost exclusively in the area of fundraising management.

#### 4 Determinants of Fundraising Success

The research in the area of fundraising management is mainly influenced by quantitative studies of organization economics, and dominated by the question of which determinants lead to fundraising success. The determinants of fundraising success can be classified into three parts: (1) financial determinants, (2) environmental factors and organizational characteristics, and (3) managerial factors.

- 1) Financial management in general deals with the question of the perfect combination of the financial sources to generate an output maximum. Most studies can be found in this area. A large part of the empirical research focuses on the relationship between fundraising effort and fundraising income (see for example Okten and Weisbrod 2000; Jacobs and Marudas 2010; Weisbrod and Dominguez 1986; Marudas and Jacobs 2007; Jacobs and Marudas 2006, 2009; Tinkelman and Mankaney 2007; Andreoni and Payne 2011; Callen 1994; Khanna, Posnett, and Sandler 1995; Posnett and Sandler 1989; Tinkelman 1998); a relationship in which the causality is not clear: The higher the cost, the higher the earnings or vice versa? Additionally, some research on the issue of crowding-out of public subsidies (Andreoni and Payne 2003, 2011; Posnett and Sandler 1989) and own revenues (Kingma 1995) with an increase in donations income can be found. While research

on crowding-out is highly controversial (Tinkelman 2010), in their research on revenue diversification Frumkin and Keating (2011) find that NPOs that have highly concentrated and specialized forms of revenue actually experience some significant benefits, for example in the form of lower administrative and fundraising expenses. According to Mayer et al. (2012), the effects of diversification on volatility and expected revenue depend on the compositional change in the financial portfolio of nonprofits. Jacobs and Marudas (2006) analyzed the effects of expense on net donations, and provide a method to identify excessive or insufficient fundraising expenditures (Marudas and Jacobs 2007). Surysekar and Turner (2012) find that past-year fundraising inefficiency is negatively related to current-year donations. Ashley and Faulk (2010) test the impact of nonprofit financial health and financial efficiency ratios on the grant amount awarded by foundations. They found statistically significant evidence that grantees with higher debt ratios and higher fundraising ratios receive lower grant amounts.

- 2) Further, fundraising management research looks at the environmental factors and organizational characteristics that influence fundraising success. The most frequently mentioned factors are age, size, and subsector (Hager, Pollak, and Rooney 2000, 2001). Thornton (2006) distinguishes different subsectors in donations markets where there are different levels of competition in each subsector. Analysis of financial data reveals that as markets become more competitive, nonprofits follow their private incentives by reducing their fundraising expenditures. Organizational size is shown to be a determinant factor of fundraising success (Yi 2010), but not always (Siciliano 1996). Marudas and Jacobs (2008) examine the sensitivity of the results using different size assets. Organizational age is significant in some studies (Weisbrod and Dominguez 1986; Okten and Weisbrod 2000). According to Weisbrod (1988), donors seem to rely more on attributes such as organizational size and age to measure the quality of nonprofit services while they should rely more on attributes such as efficiency of organizations, or the proportion of expenses spent on program services.
- 3) To date, as well as stated for the overall field of nonprofit research (Meyer and Leitner 2011), there is relatively little evidence of the effects of management factors on fundraising output. Except for example for Trussel and Parsons (2007) who developed a framework to identify four factors in nonprofit financial reports that can impact donations (the efficiency of the organization in allocating resources to its programs, the financial stability of the organization, the information available to donors, and the reputation of the organization), research is dispersed. Still, several different, independent managerial factors can be identified that determine fundrais-

ing success: Sargeant and Kähler (1999) examine the link of fundraising methods and techniques to fundraising expenditures. They report the three most successful fundraising techniques major gift fundraising, trust fundraising, and direct mail (66, 15, 6 pounds mean revenue generated per pound expenditure). Callen (1994) finds there is a positive effect of volunteering hours on donations. Concerning the role of governing boards, Hodge and Piccolo (2005) find that CEOs of privately funded agencies tend to use more board involvement techniques than CEO's of agencies funded by government grants or commercial activity. Hager, Rooney, and Pollak (2002), who conducted extensive analysis of the fundraising management practice of a sample of US charities, find that 63 percent of the investigated organizations do not have a full-time fundraising staff, and executive directors and volunteers are more involved with fundraising when the organization has a fundraising staff. In their analysis on fundraising in colleges, Proper et al. (2009) find that the total staff size is positively correlated with dollars raised. According to Chen (2009), standards of watchdog organizations have a positive effect on giving behavior. Siciliano (1996) revealed in a study of 240 YMCA organizations that, regardless of organization size, those organizations that used a formal approach to strategic planning had higher levels of financial and social performance than those with less formal processes. The above-average performers also assigned the responsibility for planning to a strategic planning subcommittee reporting to the governing board rather than to the board's executive committee or to an outside consultant. In his analysis on social movement organizations, Edwards (1994) developed a scale that measures the degree of formalization, which is based on five dichotomous indicators (has board committee, has federal tax status, develops formalized annual budget, has paid staff, has incorporated group). As a result, he concluded that the peace movement is dominated by small local groups which are more informal. The empirical findings of Sieg and Zhang (2012) suggest that managerial capacity is an important factor in determining charitable donations, whereby the authors measure the investment in management capacity by the accumulated managerial expenses of the overall organization. Ritchie and Eastwood (2006) examine the relationship between a chief executive's functional business experience and multiple financial measures of nonprofit organization performance within higher education foundations. Specifically, prior functional experience of CEOs in the areas of accounting, production, and marketing were significant and constituted positive predictors of financial performance. Further, Marudas and Jacobs (2010) provide evidence that the use of professional fundraising services by US NPOs increases the effectiveness of fundraising. Suárez (2011) finds evidence that the involvement of professional

fundraisers is consequential for government grants and contacts, based on two hundred interviews with leaders of NPOs in the San Francisco Bay Area.

Overall, the research on managerial determinants of fundraising success is fragmented, mostly consisting of individual findings, and there are little coherent, theory-based concepts. Furthermore, little is known about the developmental dynamics of these organizations on their way to fundraising success (with some exceptions, see below), and although many of the identified management variables have to do with the organizational rationalization and the inclusion of professionalized staff, the respective theoretical concepts are not elaborated precisely enough and often intermingled (Meyer and Leitner 2011). To further process the research questions, approaches need to be drawn from adjacent research areas.

## **5 Organizational Development and Professionalization**

The following is the current state of research to which the questions of professionalization and governance as asked above are addressed (see this chapter, section 2).

### **5.1 Organizational Development of Fundraising and its Linkage to Fundraising Success**

Theories and approaches of organizational development refer to the understanding that organizations develop in response to internal forces that shape organizations and their structures and cultures. Organizational theorists speak of life cycles and developmental stages through which organizations typically pass (for an overview of life cycle research found particularly on for-profit organizations, see (Quinn and Cameron 1983). Two approaches in NPO research describe the development of an organization at different stages: Wood (1992) focusing on board governance, and Kay-Williams (2000) focusing on fundraising: According to Kay Williams' (2000) five-stage model, fundraising development reaches its highest stage when it has "incorporated the ethos of marketing" by putting the donor first, integrated within an overall marketing strategy (Kay-Williams 2000). A more general, prominent model in NPO research proposed by Miriam Wood (1992) focuses on the development of board governance. She finds that boards and staff play different roles and fulfill different tasks – including fundraising – at different stages of the organization's development. Both approaches provide the classification of an organization into the stage of maturity an organization has reached and foster the understanding of development of fundraising or governance from one stage to the other. However, these models are purely descriptive and there is a lack of evidence that reaching a higher level of organizational development leads to improved perfor-

mance. So far, no development model exists for fundraising which is aligned with fundraising success.

- In Study 1 ‘Towards Fundraising Excellence in Museums - Linking Governance with Performance’, a maturity model of fundraising governance is developed and linked with fundraising performance.

## 5.2 Role of Boards in Fundraising Management and Fundraising Success

In nonprofit research and practice, the governing board is seen as ‘a subject of enormous importance’; being given ‘ultimate responsibility’ for their organization (for an overview see Ostrower and Stone 2006, p. 612). Especially in the private funding of charities and other social organizations, governing boards play an important role (Tempel 2003; Hodge and Piccolo 2005; Carver 1997; Greenfield 2009; Hung 1998; Ostrower and Stone 2006; Green and Griesinger 1996).

This is also the case for museums (Bieber 2003; Griffin 1991; Griffin and Abraham 2000; Ostrower 2002). The link between board governance and organizational or fundraising performance has been analyzed by only a few authors in nonprofit research (Brown 2005; Callen, Klein, and Tinkelman 2003; Cornforth 2001; Hodge and Piccolo 2005). In museum research, board governance (Ostrower 2002; Bieber 2003; Cato 1993; Oster and Goetzmann 2003) is a well-established research subject, as is research on museum performance (Anderson 2004; Paulus 2003), but there exists little research in the linkage of board governance and fundraising success in museums. First, there is no development model for fundraising that groups characteristics of fundraising governance, and then linking these with performance indicators. I seek to close this gap in Study 1, and analyze, whether more mature fundraising governance leads to higher fundraising performance. Second, no analysis has been found that statistically explores the link between the governance of museums and fundraising performance by regression analysis. This research objective is analyzed in Study 2. Third, there is no evidence if board governance influences organizational fundraising capabilities. In the third study, variables of Board Governance are picked up and tested as contingency variables.

- Studies 1 and 2 focus three areas of board governance: Board activity, board-to-staff-relations, and board composition. Furthermore, in Study 2, board governance variables are linked with fundraising success.
- Study 3 uses variables of board governance as contingency variables of fundraising capability.

### 5.3 Fundraising as a Profession

The studies on work and careers of the fundraisers rather look at their individual characteristics and skills (for example, Price 2008). To mention is the expansive work of Duronio and Tempel (1997) who identified characteristics that define the profiles of the most successful fundraisers. Further to mention are the studies on pay and motivation of fundraisers (Beem 2001; Mesch and Rooney 2008), which help to establish fundraising as a legitimate profession than simply as an occupation. Especially in this research category, many researchers claim the fundraiser to be a new profession (Tempel 1999; Bloland and Tempel 2004). But, to identify indicators that describe professionalism, and to investigate of whether the fundraiser can be viewed as a profession, sociologist approaches have to be considered and the status of the professionals as a collective actor have to be analyzed. There is a study by Chatterjee and Stevenson (2008), who categorized the nonprofit-manager as a semiprofessional. But to date, there is no study analyzing of whether the fundraiser can be viewed as a recognized profession.

- ➔ In Study 3, ‘Professionalism and Rationalization in Fundraising Management: A Contingency View of Fundraising Capability’, indicators are identified that describe professionalism, and the professional status of the fundraiser in Switzerland is investigated.

### 5.4 Fundraising Capability and Fundraising Success

In order to survive in the highly competitive donation market (Thornton 2006), charities systematically increase their organizational capabilities; they work with professionalized fundraisers (Suárez 2011; Marudas and Jacobs 2010; Callen, Klein, and Tinkelman 2010; Bloland and Tempel 2004), and rationalize their fundraising activities (Morison 2000; Brown 2004). So far, there exists no study which measures the degree of the involvement of professional fundraisers, and of the rationalization of fundraising activities.

With respect to the entire nonprofit organization, Hwang and Powell (2009) analyze the relationship of the involvement of professional nonprofit managers and of rationalized organization structures with data from a random sample of 501 operating charities in the San Francisco Bay Area, USA. They have found a high correlation between the deployment of professionalized staff and a rationalized organization structure. In these studies, rationalization and professionalization are considered to be separate phenomena. But, this correlation, and approaches of professional sociology and organizational theory, point to an interrelation of the involvement of professionals and a rationalized

organization (Evetts 2010; Scott and Davis 2003). So far, there is no study that combines those two factors and tests their external validity with contingency factors.

- ➔ In Study 3 '*Professionalism and Rationalization in Fundraising Management: A Contingency View of Fundraising Capability*' an index of fundraising capability is developed by using insights from and references to the sociological concept of professionalism as well as the organizational concept of rationalization, and its external validity is tested with contingency factors.

Study 4 builds on study three and questions whether the development of fundraising capability leads to an increase in fundraising success. Previous research shows some valuable results concerning aspects of fundraising capability, such as a rationalized fundraising organization or the involvement of professional fundraisers, and its respective link to fundraising performance, or fundraising effectiveness: Concerning the *aspect of rationalization*, attention is mainly paid to the entire nonprofit organization and its connection with organizational performance. In recent years, numerous approaches to improve efficiency such as total quality management, benchmarking, balanced scorecard, and outcome measurements have been tested in NPOs (Cairns et al. 2005; Paton 2003). Numerous studies on planned giving show the relevance of strategy-oriented and formalized and rationalized behavior in fundraising management activities (for an overview see Brown 2004). With the exception of a few (for example Siciliano 1996), there is a notable lack of studies that investigate the specific relationship between rationalized fundraising activities such as process orientation or strategic management and fundraising performance. Concerning the *aspect of the involvement of professional staff*, however, some studies are found that investigate a linkage to fundraising success (Hager, Rooney, and Pollak 2002; Proper et al. 2009; Marudas and Jacobs 2010; Sieg and Zhang 2012; Suárez 2011). No study exists that links fundraising capability with fundraising success.

- ➔ In Study 4 '*The Impact of Organizational Fundraising Capability on Charities' Profits from private Donations*' fundraising capability is linked with fundraising success.

## 6 On Measuring Fundraising Success

In fundraising research and practice, many different measures of fundraising performance are used. For example, Greenfield's workbook 'Fund-Raising Cost Effectiveness' (Greenfield 1996) provides a nine-point performance index which combines nine measures, among them gross revenue, net revenue and fundraising efficiency. To date, 'there is no commonly agreed method of calculating return on investment by charities'

(Aldrich 2009) and there is a lively debate on how success can be measured (Paton 1999; Brooks 2004; Aldrich 2009). Most studies use efficiency, donations, or profit (net revenue) as performance indicators, whereas each measure expresses a different understanding of the behavior of nonprofit organizations and their economic conditions:

In practice, the most commonly used performance indicator is *fundraising efficiency*, as the relationship between fundraising costs and donations must be monitored more and more carefully due to government directives or self-regulated initiatives (Steinberg and Morris 2010). In particular, watchdog organizations and government agencies such as ZEW in Switzerland, the Canada Revenue Agency (CRA), the Fundraising Standards Board in the UK, or Charity Watch in the United States, set ethical standards for the careful handling of resources and provide a benchmark to compare organizations with each other.<sup>3</sup> In prior research on the effects on fundraising efficiency, the few studies that are found show weak and partly contradictory results (see Chapter 4).

In view of these results, Study 4 suggests that nonprofit organizations may not primarily strive for efficiency. Steinberg and Morris (2010) also argue that fundraising efficiency ratios are not suitable as a benchmark due to the different conditions and objectives of nonprofit organizations and, moreover, may produce harmful side-effects such as an increase in compliance and regulatory costs or may prevent an organization from acquiring new donors (Steinberg and Morris 2010). Surysekar and Turner (2012) even find that prior-year fundraising efficiency is negatively associated with current-year donations and thus limits growth. For these reasons, two effect-oriented success variables are examined: fundraising income and fundraising profit.

As in Griffin, Abraham, and Crawford (1999), the donation income of Swiss museums is used as a dependent variable (Chapters 1 and 2). Indeed, most research investigates the effects of variables on donations. Here, the underlying microeconomic assumption is that the nonprofit organization seeks to maximize gross revenues from fundraising to expand its overall market share.

Study 4 builds on the realization, that donations are primarily sensitive to price (Posnett and Sandler 1989) and/or fundraising expenditures (see for example Okten and Weisbrod 2000; Marudas and Jacobs 2010; Weisbrod and Dominguez 1986; Marudas and Jacobs 2007; Jacobs and Marudas 2006, 2010, 2009; Tinkelman and Mankaney 2007; Andreoni and Payne 2011; Callen 1994; Khanna, Posnett, and Sandler 1995; Posnett and Sandler 1989; Tinkelman 1998). This often empirically confirmed sensitivity, however, simply reflects the logic of investing: the more money is spent, for example, on manpower and marketing campaigns for fundraising, the more return on dona-

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<sup>3</sup> For further information on direct and indirect regulation of the control of fundraising costs and the practical use of fundraising efficiency ratios, see (Steinberg and Morris 2010).



tions is expected. As a result of the strong relationship between incoming donations and fundraising expenditure, methodological problems such as endogeneity are likely to appear in linear regression and the crowding-out of variables impedes the identification of other important predictors. Therefore, in Study 4 on Swiss charities (Chapter 4) donations are adjusted by fundraising expenses prior to running econometric analyses, and use fundraising profit as a dependent variable. Profit is a predominant measure of success in organizational economic research. According to Steinberg, this should be also used in fundraising because ‘...unless an organization has all the resources it needs to fully accomplish its mission, the right amount to spend is the amount that produces the greatest net proceeds (donations minus costs).’ (Steinberg and Morris 2010, p. 80; Steinberg 1991).

## **7 Methods and Methodologies**

Nonprofit research is both multi- and interdisciplinary and deals with issues of sociological and political science as well as with micro- and macroeconomics (Anheier 2005). Like its superordinate field of study, fundraising research should, in the authors’ opinion, be more multi- and interdisciplinary as well. However, there is an abundance of quantitative, deductive, institution economic studies, especially concerning the search for explanations for fundraising success of organizations. On the other hand, there is a certain lack of concern for sociological issues or organization and management theory. This may be problematic, because it cuts research off from the possibility of developing new fundraising theories or approaches, or from using different methodologies. The methodologies of the present studies are rarely applied in nonprofit research, however some of them are mentioned in the following: Explorative factor analysis was undertaken by Ritchie and Kolodinsky (2003), who identified three performance factors amongst several performance items. Marlin, Ritchie, and Geiger (2009) cluster performance measures to identify different strategic orientations, and Callow (2004) employ clustering techniques to find out that older adult volunteers share diverse motives for volunteering. Sarstedt and Schloderer (2010) use formative index engineering to develop an index for the measurement of non-profit reputation. The studies presented in this dissertation use these methodologies in the context of board governance and professionalization and fundraising management, issues for which these methods have not been used to any great extent.

**The four studies aim to enrich fundraising research by their use of multi- and interdisciplinary approaches and diverse methodologies:**

The first study, *'Towards Fundraising Excellence in Museums – Linking Governance with Performance?'*, takes up the approach of organizational development, where internal forces shape organizations that go through developmental steps and stages over time. Here, the inductive methods of factor analysis and of cluster analysis as well as deductive methods of analysis of variance and univariate analysis in the linear model were applied. The second study, *'Factors of Board Governance and Fundraising Success: The Composition of Swiss Museum Boards Does Matter'*, and the fourth study, *'The Impact of Organizational Fundraising Capability on Charities' Profits from Private Donations'*, are institution economic in the tradition of scientific management. Variables and factors of governance and fundraising management are linked with fundraising performance to identify success factors for improvement. The third study, *'Professionalism and Rationalization in Fundraising Management: A Contingency View of Fundraising Capability'*, follows an approach related to contingency theory, where the importance of environmental factors is stressed, which define different requirements for an organizations' success. In the third and the fourth study, the new variable of fundraising capability that is introduced is deduced from organization theory and sociologist professionalism. Furthermore, the third study uses qualitative criteria from sociologist professionalism to assess the state of the 'fundraiser' as a profession (see Table 1).

## **8 Summaries of the Four Studies**

In the following, the studies are summarized individually and their research objectives, approaches, methods, and results are presented. For a systematic comparison the four studies, see Table 1.

	Study 1	Study 2	Study 3	Study 4
<b>Title</b>	<b>Towards Fundraising Excellence in Museums—Linking Governance with Performance</b>	<b>Factors of Board Governance and Fundraising Success: The Composition of Swiss Museum Boards Does Matter</b>	<b>Professionalism and Rationalization in Fundraising Management: A Contingency View of Fundraising Capability</b>	<b>The Impact of Organizational Fundraising Capability on Charities' Profits from private Donations</b>
<b>Research objective</b>	The aim of this research project is to develop a model for fundraising governance that reflects the level of an organization's success in raising funds.	The aim of this research project is to statistically analyze the relationship between factors of board governance and fundraising performance in museums.	The aim of this research project is the construction of a measure of fundraising capability and the analysis of its relationship with organizational contingency variables.	The study examines the question of what impact the development of organizational capabilities of fundraising management has on profit, taking into account relevant organizational control variables.
<b>General approach</b>	Dynamic organization cycle, management research, institutional economics	Management research, institutional economics	Professionalism sociology, organization theory, institutional economics	Management research, institutional economics
<b>Method</b>	Qualitative and quantitative	Quantitative	Qualitative and quantitative	Quantitative
<b>Logic</b>	Mostly, inductive, explorative	Mixed, inductive, and deductive	Deductive, theoretic assumptions and hypothesis testing	Deductive, theoretic assumptions and hypothesis testing
<b>Statistical research methods</b>	<ul style="list-style-type: none"> <li>– Factor analysis</li> <li>– Cluster analysis</li> <li>– Analysis of variance</li> </ul>	<ul style="list-style-type: none"> <li>– Factor analysis</li> <li>– Multiple regression analysis</li> </ul>	<ul style="list-style-type: none"> <li>– Formative index construction</li> <li>– Multiple imputation</li> <li>– Hierarchical multiple regression analysis</li> </ul>	<ul style="list-style-type: none"> <li>– Hierarchical multiple regression analysis</li> <li>– Multiple imputation</li> </ul>
<b>Variables</b>				
<b>Performance</b>	<ul style="list-style-type: none"> <li>– Fundraising income (ln)</li> </ul>	<ul style="list-style-type: none"> <li>– Fundraising income (ln)</li> <li>– Fundraising efficiency</li> </ul>		<ul style="list-style-type: none"> <li>– Fundraising profit (ln)</li> <li>– Organizational effectivity</li> <li>– effectivity</li> </ul>
<b>Governance</b>	<p><b>Factors:</b></p> <ul style="list-style-type: none"> <li>– Board's fundraising management activity</li> <li>– Inclusion of donor and business representative on board</li> <li>– Board as symbolic decision-maker</li> </ul>	<p><b>Factors:</b></p> <ul style="list-style-type: none"> <li>– Board's fundraising management activity</li> <li>– Inclusion of donor and business representative on board</li> <li>– Board as symbolic decision-maker</li> </ul>	<ul style="list-style-type: none"> <li>– Donors on the board</li> <li>– Board activity in fundraising management</li> <li>– Professionalized board members</li> </ul>	

(Continuation)

<b>Management</b>	<u>Factors:</u>				
	– Strategy and controlling			– Index of rationalization	– Index of fundraising capability
	– Fundraising techniques			– Index of professionalization	
				– Index of fundraising capability	
			– Growth strategy		
			– Consolidation strategy		
<b>Other organizational characteristics</b>	<u>Cluster:</u>	– Operational expenditure	– Organization age (ln)	– Operational income (ln)	
	– Awareness	– Composition	– Total income	– Share of public subsidies	
	– Integration	– Legal forms	– Share of fundraising to total workers in FTE	– Organizational age (ln)	
	<u>Others:</u>		– Field of activity		
	– Legal forms				
	– Operational expenditure (log)				
	– Museum category				

Table 1. Morphological Table; Systematic Comparison of the Studies

## 8.1 Study 1: Towards Fundraising-Excellence in Museums: Linking Governance with Performance

### 8.1.1 Research Objective

The aim of this study (Chapter 1) was to develop a model for fundraising governance that reflects the level of an organization’s successful fundraising.

### 8.1.2 General Approach

This study is subject to approaches of organizational development (see this chapter, section 5.1). In contrast to the mostly qualitative and theory-based concepts of dynamic organization cycle models found in nonprofit research (Wood 1992, Kay-Williams 2000), this study further develops these existing models by first taking a quantitative approach and second, by linking the development stages with fundraising performance. Thus, this dynamic life cycle model of fundraising governance is being combined with an organization economic approach. Within this rationalistic approach, *governance* is viewed as a causal social mechanism (Hedström and Ylikoski 2010), where input leads to an outcome by intended, changeable, organized structure and action. The *outcome* of fundraising governance is described by using measures of fundraising performance (Aldrich 2009). Concerning the *input*, stages of fundraising maturity are developed.

### 8.1.3 *Methods*

Survey data from 244 museums was collected in 2010 in association with the Swiss Museum Association. Ninety-eight of the interviewed museums are actively involved in fundraising. Given the theoretical perspective and substantive purposes, the questionnaire was designed to collect data on two aspects: (1) items for board governance, (2) items for the application of fundraising management practices (see table 1). Furthermore, data was collected to develop indicators for fundraising performance, for example fundraising income and expenditures. Plus, data on other museum characteristics like museum category, annual operating expenses, voluntary fundraising engagement, and legal forms, which are used as descriptive and as control variables, were collected. 89 of the interviewed museums indicate that they are actively engaged in fundraising. With these data, the analysis continued.

In step one of the analysis, selected items are used for explorative factor analysis and formative index engineering. In step two, museums are classified into three clusters by hierarchical cluster analysis, and then each class is mapped to a fundraising governance level based upon theoretical considerations. In step three, fundraising governance clusters are linked with fundraising performance measures by means of an analysis of variance. Furthermore, the influence of the control and intervening variables of annual operational income, legal form, and museum category is tested in the univariate linear model (Figure 2).

**Step one:  
Factor analysis**

Items	
board governance	<ol style="list-style-type: none"> <li>1. Active in fund-raising: The board members</li> <li>2. Fundraising strategy decided by board</li> <li>3. Achievement of fundraising goals is controlled by board</li> <li>4. Board mobilizes private donors</li> <li>5. The decision-making documents prepared by the fundraising fundraising representative signed unchanged by the board</li> <li>6. Patron or/and businessman participant of board</li> <li>7. Targeted co-option of (potential) donor into Board</li> </ol>
fundraising management practices	<ol style="list-style-type: none"> <li>1. Fundraising strategic performance goal</li> <li>2. Fundraising performance targets set</li> <li>3. Fundraising strategy established</li> <li>4. Performance Measurement of each fundraising activity</li> <li>5. Annual Performance Measurement of fundraising success</li> <li>6. Quality standards for the management of fundraising activities set</li> <li>7. Fundraisers visit Fundraising Training</li> </ol>
	<ol style="list-style-type: none"> <li>8. Project submission (trusts)</li> <li>9. Capital campaign</li> <li>10. Management of a friends' association</li> <li>11. Requests for patrons</li> <li>12. Corporate donations</li> <li>13. Collection campaigns with traditional mailings</li> <li>14. Internet fundraising</li> <li>15. Telephone fundraising</li> <li>16. Events</li> <li>17. Systematic collaborations with other organizations</li> <li>18. Legacy fundraising</li> <li>19. Acquisition of volunteers</li> <li>20. Requests for benefit in kind</li> <li>21. Merchandising</li> </ol>

**Factor I**  
*Boards fundraising activity*

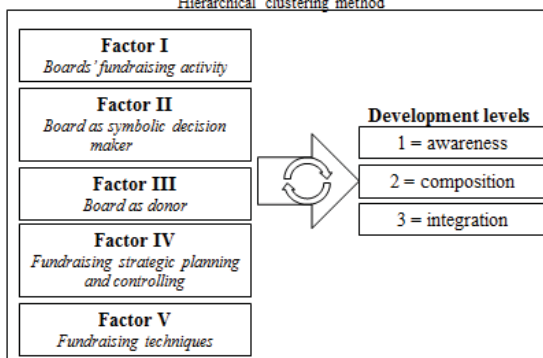
**Factor II**  
*Board as symbolic decision maker*

**Factor III**  
*Board as donor*

**Factor IV**  
*Fundraising strategic planning and controlling*

**Factor V**  
*Fundraising techniques*

**Step two:  
Hierarchical clustering method**



**Step three:  
Analysis of variance, ad-hoc-tests,  
univariate analysis in the linear model**

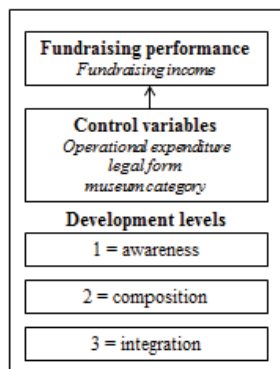


Figure 2. Research Model, Study 1 'Towards Fundraising-Excellence in Museums - Linking Governance with Performance'

## **8.2 Study 2: Factors of Board Governance and Fundraising Success: The Composition of Swiss Museum Boards Does Matter**

### *8.2.1 Research Objective*

Study 2 (Chapter 2) is a continuation of Study 1. The aim of this study was to statistically analyze the linear relationship between factors of board governance (see also Study 1), and fundraising performance in museums.

### *8.2.2 General Approach*

Of the 89 Swiss museums surveyed in the present study, 23 percent indicate that the importance of fundraising will increase over the next five years. In nonprofit-organizations, this includes not only the professionalization of the staff but especially a development of the governing boards. Therefore, determining how governance structures and mechanisms can be effectively established for successful fundraising in museums is becoming increasingly important. As already stated in section 5.2 of this chapter, board governance and museum performance are well-established research topics, but there is a lack on studies that analyze the linkage of board governance and fundraising success.

This analysis follows an organization economic approach and is one of the first that statistically explores the link between various factors of museums governance and fundraising performance by regression analysis.

### *8.2.3 Methods*

In contrast to Study 1, which pursues a more inductive approach to the development of different stages of fundraising maturity, here deductive methods are applied.

By means of multiple linear regression analysis, the link between various governance factors as independent variables, and donations income, are explored. The in Study 1 identified factors of board governance are hereby used as independent variables. To take into account the categorical variables of legal form and organization size, subsequently, a covariance analysis is performed. For the research model, see Figure 3.

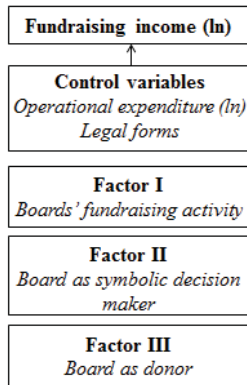


Figure 3. Research Model, Study 2 'Factors of Board Governance and Fundraising Success: Composition of Swiss Museum Boards Does Matter'

### 8.3 Study 3: Professionalism and Rationalization in Fundraising Management: A Contingency View of Fundraising Capability

#### 8.3.1 Research Objective

The aim of this research project (Chapter 3) was the derivation of a measure of fundraising capability and second, the analysis of its relationship with organizational contingency variables. As a preliminary study, to introduce the field of Swiss charities, and to identify indicators of professionalism, the development of professionalization of the fundraiser in Switzerland was analyzed.

#### 8.3.2 General Approach

The professionalization of fundraising management in nonprofit organizations is progressing (Hager, Rooney, and Pollak 2002; Tempel 1999). The professional development of the fundraiser in Switzerland serves as preliminary study to define the societal professionalization status of the fundraiser in Switzerland, and in order to reveal professionalization indicators for the organizational analysis.

On the organizational level, major international organizations as well as smaller NPOs are increasingly building up their internal fundraising capabilities; however, the constructs used in nonprofit research to describe and analyze this development have not yet been fully clarified. To amend this deficit, an Index of fundraising capability is being developed. This index is defined as a measure of the ability and capacity of an organization to raise money through the management of people and processes (for a definition of organizational capability, see Ulrich and Lake 1990). It is developed by



recourse to existing theoretical concepts of professionalism (Abbott 1988; Caplow 1966) and organizational rationalization (Scott and Davis 2003; Weber 1947), and thus combines the involvement of professional fundraisers and the rationalization of the fundraising organization.

Furthermore, it is assumed that fundraising capability differs in the respective NPOs. Based on considerations according to the contingency approach in institutional theory (Bradshaw 2009), this study explores which influencing factors might explain these differences in fundraising capability. This analysis is relied on established contingency factors from nonprofit research, such as organization size and age, strategy, board governance, and fields of activity. As volunteering and professionalization are often in a field of tension in nonprofit management (Kreutzer and Jäger 2011; Ganesh and McAllum 2012), the contingency factor of voluntary engagement was analyzed as well.

### 8.3.3 *Methods*

A preliminary study traces the professional development of the fundraiser in Switzerland by means of structured qualitative analyses, by recourse to criteria of professionalism studies in sociology.

For the development of the fundraising capability index, following procedure was chosen: First, in line with the theoretical considerations, two formative indexes were developed: one additive index made of relatively independent items that measure the involvement of professional fundraisers, and one index made of relatively independent items that as a whole measure the degree of the rationalized fundraising organization. Second, the relationship of these two indexes was tested by bivariate correlation to statistically confirm the relationship derived theoretically. Third, an index which combined indexes one and two was constructed measuring the degree of organizational capability of fundraising management. Forth, in order to characterize the behavior of fundraising capability in relation to other organization characteristics, hypotheses were formulated based on theoretical considerations and previous research. Hypotheses were tested by means of hierarchical multiple linear regression, using fundraising capability as a dependent variable and relevant contingency variables like organization age and size, voluntariness, strategy, board governance, and fields of activity as independent variables. Missing values were imputed by multiple imputation methods. For the research model, see Figure 4.

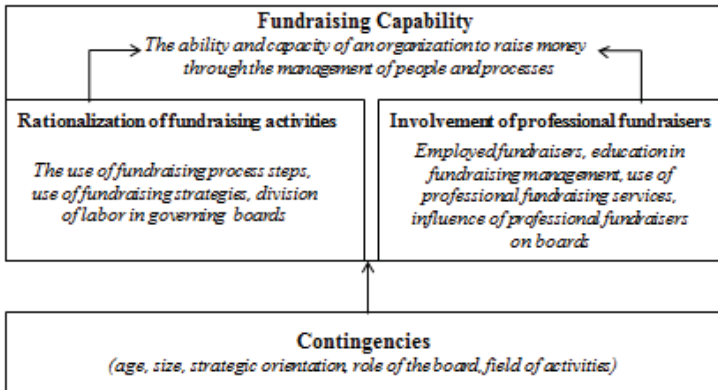


Figure 4. Research Model, Study 3, 'Professionalism and Rationalization in Fundraising Management: A Contingency View of Fundraising Capability'

## 8.4 Study 4: The Impact of Organizational Fundraising Capability on Charities' Profits from Private Donations

### 8.4.1 Research Objective

The study (Chapter 4) examines the question of what impact the development of organizational capabilities of fundraising management has on profit, taking into account relevant organizational control variables.

### 8.4.2 General Approach

The fourth research project is a continuation of Study 3 and, in line with Study 2, it combines the management approach of behavioral studies with the institutional economic approach of performance orientation. The competition for donations in the donation market is intensifying (Thornton 2006) and fundamentally changing the behavior of fundraising managers. For nonprofit organizations, it has now become mainly a matter of securing the highest possible market share while controlling fundraising expenditure, which is what private donors and public authorities expect. Therefore, maxim of action is the increase in donations profits (FR profit), also referred to as net donations or gains.

It is assumed that the focus on growing profits is associated with an expansion of fundraising activities. To increase fundraising profits, charities increase their internal organizational capabilities in fundraising management: a reinforcement of the involvement of fundraising professionals, and the rationalization of organizational structures. Because this managerial variable of fundraising capability fosters organizational quality, it is further assumed here that it contributes some added value, which can be expressed

only partly in terms of the absolute fundraising expenses. Previous research indicates that sub-indexes of fundraising capability, such as professional knowledge and rational organization structures, tend to foster performance (see Chapter 4). It is therefore expected that fundraising capability is positively related to fundraising profit. Testing the relationship between fundraising profit and fundraising capability requires that relevant control variables be included in the analysis.

#### 8.4.3 *Methods*

The first part of this contribution refers to a brief summary of the theoretical construction of fundraising capability and to its theoretical relationship to organizational or fundraising performance in present research. The second part relates to the choice of the dependent variable of fundraising profit. The research model takes into consideration the behavior of NPOs in terms of fundraising capability and profit; it specifies control variables and results in hypotheses. The research model forms the basis for the linear regression equation applied in the ensuing quantitative analysis.

In the hierarchical multiple linear regression analysis, fundraising profit is used as dependent and fundraising capability is used as independent variable. Relevant control variables are organization size, measured in donation income, the share of public subsidies, organization age, and organizational impact effectiveness. For the research model, see Figure 5.

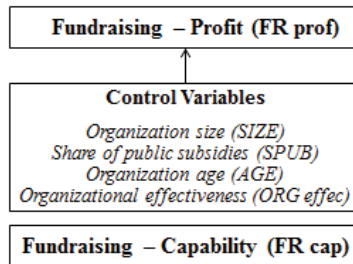


Figure 5. Research Model, Study 4, 'The Impact of Organizational Fundraising Capability on Charities' Profits from Private Donations'

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# Study 1: Towards Fundraising Excellence in Museums –Linking Governance with Performance

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## Abstract

*This article presents an empirical analysis of the relationship between fundraising governance characteristics and fundraising performance in a sample of 98 Swiss museums. We propose a governance model that reflects the developmental level of an organization's fundraising in regard to success. Inspired by research on business excellence, the proposed model extends the primarily qualitative and theory-based concepts of dynamic organization life-cycle models, which are found in nonprofit research, by taking a quantitative approach. We explore five fundraising governance factors: the governing board's fundraising activity, the governing board as symbolic decision maker, the governing board as donor, fundraising strategic planning and controlling, and fundraising techniques. Museums are classified into fundraising governance levels: 'zero', 'awareness', 'composition' and 'integration'. The model is shown to be linked with fundraising income.*

**Keywords:** fundraising, museums, governance, management practices, performance, excellence

## 1 Introduction

The search for excellence in the field of fundraising management has become an increasingly important issue in fundraising research and practice over the last few years (Tempel *et al.* 2011). Much attention has been focused on the personnel development of fundraising managers (Bloland and Tempel 2004; Mesch and Rooney 2008; Tempel 1999) with little on the achievement of organizational fundraising excellence (Kay-Williams 2000; Hager *et. al* 2002; Jacobs and Marudas 2006; Marudas and Jacobs 2007). One approach to developing successful fundraising within an organization is the five-stage model put forth by Kay-Williams (2000). According to Kay-Williams, fundraising development reaches its highest stage when it has 'incorporated the ethos of marketing' (Kay-Williams, 2000) within the entire marketing strategy by putting the donor first. A more general yet prominent model in nonprofit organization (NPO) research proposed by Miriam Wood (1992) and focuses on the development of board governance. Wood finds that governing boards and the organization's staff play different roles and fulfil different tasks – including the fundraising task – at different stages of organizational development. Both approaches provide the classification of an organization into the

stage of maturity the organization has reached as well as foster the understanding of the development of fundraising or governance from one stage to the next. The shortcomings of these models, as well as the other life-cycle models (Greiner 1972; Kimberley 1980; Whetten 1987; O'Rand and Kreckler 1990), lie in their pure descriptivism and lack of evidence showing that reaching a higher level of organizational development leads to improved performance. It is at this point that insights from business excellence research become of interest since here the link between performance measures and groups of organizational characteristics is actually investigated (Kanji and Sàà 2007; Moullin 2007; Oakland and Tanner 2008). So far no such excellence model exists for fundraising.

The aim of this research project is to fill this gap by taking insights from previous nonprofit research on museums, governance and fundraising and integrating them with business excellence research. By applying quantitative-statistical methods, we propose a model for fundraising governance that reflects the level of an organization's successful fundraising, specifically with regard to Swiss museums. Despite a traditionally considerable commitment of art patrons, Swiss museums are still mainly financed by public funds and self-generated income (see this chapter, section 4.2). Swiss museums seem to provide an appropriate focus for our inquiry because they are increasingly under-financed and thus expected to advance their fundraising activities in the coming years.<sup>1</sup> This development makes fundraising excellence a pertinent and timely issue; the question of how effective governance structures can be established for successful fundraising in museums is becoming increasingly important.

In this paper, we first outline the current state of research concerning fundraising governance factors and their link to fundraising performance. After presenting the data sample and the research methodology, we outline the results in three steps. Finally, we offer several conclusions for future research and practice.

## 2 Fundraising Governance and Performance

Reduced to its least common denominator, governance can be defined as the different mechanisms that create order among a population of actors (Mayntz 2009). Thus, governance research is closely related to 'social mechanism explanation', a concept currently receiving considerable attention in the social sciences (for an overview, see Hedström and Ylikoski 2010). Mechanisms are defined as '...entities and activities organized such that they produce regular changes from start to finish' (Machamer *et al.* 2000). In other words, input leads to an outcome by intended, changeable, organized

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<sup>1</sup> Twenty-three percent of the interviewed museums expect to increase their engagement in fundraising activities.

structure and action. The outcome of fundraising governance is commonly described by measures of fundraising performance (Yi 2010; for the discussion of the use of fundraising performance measures in the present study, see this chapter, section 5 'Results'). Concerning the input of fundraising governance, we first look at the activity aspect, specifically the implementation of certain management practices, in which mechanisms of collective action are established in order to fulfil or reach requirements, targets or outcomes. Next, entities, understood as structures of collective activities, have to be analyzed. We look at governing boards because they play a crucial role in NPOs and because they influence activities of fundraising in an important way.

## 2.1 Fundraising Management Practices in Museums

Within the field of fundraising management practices, which compared with fundraising communication, for example, is fairly underrepresented in fundraising research; two major topics can be identified: (a) the use of fundraising techniques and (b) strategic fundraising management.

(a) An important element of fundraising management is the professional and customized use of fundraising techniques. There are numerous papers which discuss the use of fundraising techniques in a variety of NPOs, but no such study exists within the museum sector. Sargeant and Kähler's (1999) study, which analyses the effect on fundraising performance in an investigation of the five hundred charities in the UK, is notable. They measured each use and efficiency of a range of popular fundraising tools and found that major gift fundraising, trust fundraising, and direct mail generate the highest mean revenue generated per pound expenditure (66, 15, and 6), and that fundraising performance does not depend on the organization's size (Sargeant and Kähler 1999). To date, no study has been published that quantifies the techniques applied within each organization or that measures the intensity of use of fundraising management techniques.

(b) Another central aspect of fundraising management practices is strategic management. The practical relevance of strategic planning (Bush 2003; Ferson 1996; Hanson 1997; Lindahl and Winship 1992) and performance measurement (Aldrich 2009; Brooks 2004; Paton 1999; Ritchie and Kolodinsky 2003; Yi 2010) in fundraising has been the subject of nonprofit research since early on. Conversely, in their empirical research on arts organizations, Turbide *et al.* (2008) found that governance was more often carried out spontaneously rather than in a planned manner (Turbide *et al.* 2008, p. 7). Holmes's research also uncovered the low status of management in museums in the UK (Holmes and Hatton 2008). These two indications conform to the mutually exclusive relationship between planning and creativity. However, considering the fundraising

task, which is not a genuinely creative one, fundraising planning in museums might also be relevant for success. Some nonprofit researchers have looked at the relationship between certain planning practices in general and their organizational outcome (Herman and Renz 2004; Odom and Boxx 1988; Siciliano 1997). For example, Siciliano's study (1997) of 240 YMCA organizations revealed that organizations using a formal approach to strategic planning achieve higher levels of financial and social performance compared to those with less formal processes, regardless of organization size (Siciliano 1997, p. 387). Thus far, no study has statistically explored the explicit relationship between fundraising planning and fundraising success.

## 2.2 Board Governance and Fundraising in Museums

In nonprofit governance research and practice, the governing board is seen as 'a subject of enormous importance', being given 'ultimate responsibility' for their organization (for an overview see Ostrower and Stone 2006, p. 612). Cray and Inglis (2011), in their study of strategic decision making in arts organizations, conclude that boards of arts organizations may even be more directly involved than those of other types of nonprofit institutions (Cray and Inglis 2011). The board's different roles and different tasks (a), the formation of its relationship with the executive management (b) and the board composition (c) define different governance models or typologies within which organizations perform (Bradshaw *et al.* 2007; Brown 2000; Cornforth 2001a; Dickenson 1991; Duca 1996; Hung 1998; Murray 1998; Ostrower and Stone 2006).

(a) Many researchers see fundraising as one of the most important activities of nonprofit supervisory boards (Carver 1997; Cornforth 2001b; Green and Griesinger 1996; Greenfield 2009; Hodge and Piccolo 2005; Hung 1998; Ostrower and Stone 2006; Tempel 2003). In museums (Bieber 2003; Dickenson 1991; Griffin 1991; Griffin and Abraham 2000; Ostrower 2002) and other arts organizations (Paulus and Lejeune 2012), fundraising is also seen as an important task of the governing board, especially to attract major arts donors. In her study on US American museum and theatre arts boards, Ostrower (2002) discovered that active fundraising is one of the board's most important activities (Ostrower 2002, p. 66). However, a study on the effective management of 33 Australian and Canadian museums (Griffin *et al.* 1999) found rather weak statistical incidence of the importance of museums boards in fundraising: just over five percent of the variation was found, although the active contribution of board members to fundraising was the strongest item of the overall governing board factor.

(b) According to Woods's (1992) dynamic model of the development of governing boards in NPOs, at some point the executive director gains the board's confidence and performs tasks more and more independently (Wood 1992, p. 144). In this situation, the board approves decision memos from the managing directors without detailed review.



Studies of arts boards show that with the emergence of professional arts managers, the governing body develops into a more symbolic decision-maker, reliant on the suggestions of the professional staff (DiMaggio and Useem 1978; Ostrower 2002; Zolberg 1981). McPherson (2006) points out that museum staff has to deal with fundraising more and more. In theory, models of governance suggest two ideal-typical forms of board-staff relationship: first, a harmonious partnership with the leadership core and second, a hierarchical relationship of authority with the board in the superior position (Ostrower and Stone 2006). Empirical research of arts boards, however, reveals numerous different, complex patterns of relationships moving between those ideal types (see for example Ostrower and Stone 2006, p. 617). In medium-sized and in smaller arts institutions, the relationship between the governing board and the executive management is often not clearly defined (Zehnder 2002). Paulus and Lejeune (2012) highlighted the importance of the executive director as ‘governance entrepreneur’, whose important role is to design the board’s composition and activities. Thus, when exploring the board’s fundraising role, the independence of the staff in fundraising should be considered.

(c) Apart from board activities and the relationship to the executive directors, the composition of the board as the organizations’ fit to its environment is an important aspect in nonprofit research on governing boards (in accordance with resource dependency theory, see Brown and Iverson 2004; Brown 2002; Pfeffer 1972). Ostrower (2002) observed that board members serve as donors themselves, feeling moral pressure to donate (Ostrower 2002, p. 67). Moreover, in line with Oster and Goetzmann (2003), she noted that the incorporation of donors on governing boards is one of the most powerful fundraising tools in US American museums (Ostrower 2002, p. 68). This is also the case in Switzerland, where Maecenas, wealthy patrons, often play central roles, for example, as major donors of museum buildings, founders of the museum organization and donors or permanent loaners of their art collections. Apart from donors, business representatives seem to form another stakeholder group which appears relevant to private funding. Anderson (2005) stated a significant influx of businessmen and bankers onto UK museum committees and boards. Griffin (2008) observed that museums with high fiscal rectitude and some need for private funding are appointing a growing number of people from business as members of their boards.

### **3 Organizational Development Models for Governance and Fundraising**

Thus far we can summarize that existing research indicates some possible clues about the connection between the factors of fundraising governance and fundraising

success. However, the correlations we have found relate to individual, isolated factors; they do not provide a complete picture regarding the governance of fundraising within organizations. The two approaches in nonprofit research that combine various factors and describe the evolution of an organization at different stages are Wood (1992), with a focus on board governance, and Kay-Williams (2000), with a focus on fundraising. We will now look at both in more detail.

Wood's dynamic organizational life-cycle model for governance of NPOs follows in the tradition of cyclical, dynamic models of various authors (Greiner 1972; Kimberly 1980; O'Rand and Krecker 1990; Whetten 1987). This approach assumes that the governance practices within an organization change over time (Duca 1996, pp. 89-90), and each stage of development is described by certain bundles of governance characteristics. Wood (1992) distinguishes between four phases: the founding phase, the super-managing phase, the corporate phase and the ratifying phase. In the founding phase, the governing board is the central part of the organization and its values; it '*...is the agency*' (Wood 1992, p. 144). Board members often are personally motivated and actively make decisions, for the most part, without differentiating between policy and administration. In this phase, board members often donate to cover deficits. At the end of this phase, a paid executive officer is hired and given most of the tasks to carry out. This is the start of the super-managing phase, which is dominated by the conflicts of the professional executive officer who takes over the administration and a decision-making board who has to adapt to more professional work. The subsequent corporate phase is characterized by the clear division of tasks: the board decides policies that are to be implemented by the executive director. The ensuing ratification phase is highly formalized, and the decision-making processes become ritualized. Here, the executive director represents the organization and pushes the board to recruit higher prestige members to enhance its reputation and fundraising capacity (Wood 1992, p. 149).

Kay-Williams (2000) designed a five-stage model for the development of fundraising. For this purpose, she interviewed 30 charities and analyzed them using a qualitative, grounded theory approach (Kay-Williams 2000, p. 220). In contrast to the present model, she used 'position of founder', 'paid staff/volunteer dominance', 'position of founder' and 'reliance on voluntary income' as descriptive variables for modelling. Kay-Williams distinguished between three major phases: the appeal phase, the fundraising phase and the marketing phase. In the beginning of the appeal phase, fundraising is chiefly run by a few core volunteers, with some involvement of the executive staff. At this point, no fundraising targets are set. At the end of the appeal phase, more volunteer groups are involved and given support by staff members who are responsible for fundraising. In the early stages of the fundraising phase, a fundraising department is established, and volunteers and the founder are less involved. In this phase, a growing need for fundraising can be observed. In the later stages of the fundraising phase, fund-

raising is more strategic; volunteers are deployed systematically, and fundraising income becomes essential for the core work of the organization. The final stage is the marketing phase with a large team of fundraisers following a one-to-one marketing approach with a marketing orientation across the whole department. Volunteers are only selectively involved. The goal is to generate long-term reliable income from fundraising.

Both of these approaches foster the understanding of the development of fundraising or governance from one stage to the next. They bundle organization characteristics to explain the respective stages of organization development. However, from a methodological point of view, both approaches are purely descriptive and lack evidence that reaching a higher level of organizational development leads to improved performance. To date, no such performance-oriented model for fundraising exists. We seek to close this gap by determining whether more mature fundraising governance leads to higher fundraising performance, based on a sample of Swiss museums.

## **4 Methodology: Data Collection, Sample and Methods**

### **4.1 Data Collection**

Data was collected in 2010 from a list of 1065 contacts from 730 museums provided by the Swiss Museum Association. In emails sent by the Association to the contacts, participation was requested and a link to an online questionnaire was supplied. After two email requests and some telephone recalls, 244 museums replied. We received a response rate of approximately 34 percent.

Collecting data relating to fundraising from museums was a difficult proposition. We received some implausible results, particularly regarding the scale variables, such as operating income, fundraising revenue and fundraising expenditure. Because of this, we did a follow up with 64 of the 244 museums by email and telephone (a total of two times). Of the 244 museums, 23 did not respond, 20 corrected their details and 21 claimed they had responded correctly despite the implausible data. For example, ambiguous data in fundraising income was due to a single donation, or missing operating income was due to the renovation of a museums. To estimate the accuracy of the fundraising revenue figures, a check was incorporated into the questionnaire to determine whether the figures were estimated or based on actual accounting. A total of 63 percent of respondents said that they had estimated their fundraising revenue only.

## 4.2 Sample Characteristics: Swiss Museums

Swiss museums are – like all museums – highly diverse in size, legal form and finance, and operate in different fields (Anderson 2005; Lindquist 2012; Oster and Goetzmann 2003). The 244 surveyed museums represent eight different museum categories based on the official categorial system of the Swiss Museum Association and the following legal forms (Table 1).

<b>Museum category:</b>	Regional and local	Topic (such as ceramics, toys)	Art	History	Technology	Natural history	Archeology	Ethnographic
	36.10%	19.70%	14.80%	9.80%	9.40%	7%	2.50%	0.80%

<b>Legal form:</b>	Private association (non-profit-oriented)	Private foundation (non-profit-oriented)	Public administration department	Public-law institution (such as public foundation)	Profit oriented private legal form (such as ltd., joint-stock companies)
	31.50%	24.60%	20.10%	16.80%	7%

<b>Financing:</b>	State subsidies	Self-generated income	Private funding
	40.14%	39.74%	19.72%

Table 1. Share of Museum Category, Legal Form and Financing

Note: In percent, sorted by size

Museum size in terms of annual operational expenditure ranges from 150 Swiss francs (\$ 163, exchange rate on 12 April 2012) to 28m Swiss francs (\$ 30.52 m). A total of 28 percent of museums are below 20 000 Swiss francs (\$ 21 800), while 46.7 percent lie between 20 000 and 0.5m Swiss francs (\$ 5.45m) of annual expenditure. The survey results concerning category, legal form and annual operational income were very similar to those found by the Swiss case study of the Johns Hopkins Comparative Nonprofit Sector Project (CNP) (Helmig *et al.* 2007). Thus, the present sample appears to be a good representation of the population of Swiss museums.

Museum financing (Table 1) shows similar results to a research project on the financing of Swiss museums in 2003 by Beccarelli (2005) with virtually the same results for fundraising income (18.8 percent), a little lower self-generated income (36.2 percent) and a slightly higher state subsidies share of 45 percent (Beccarelli 2005, p. 231-232). Swiss museums depend only half as much on private funding as, for example, US American museums, whose share from private funding is about 40 percent (Anheier and Toepler 1998; Hughes and Luksetich 2004; Song and Yi 2011; Toepler and Dewees 2005), in comparison with UK arts museums, where only 15 percent of arts income comes from private investment (Mermiri 2010).

The four major fundraising activities found in our study were management of friends associations (50.4 percent), trust fundraising by project submissions (46.3 percent), organizing of events (43.9 percent) and acquisition of volunteers (40.2 percent). If one takes into account the important role of Maecenas in the museum sector (Sargeant *et al.* 2002), it is surprising to find that, in Swiss museums, targeted requests for patrons, at 27.5 percent, is currently not a dominant fundraising activity.

Through the question item ‘Is fundraising carried out at your museum?’, we were able to separate those museums that consciously raise funds from those that do not carry out fundraising explicitly. Sixty percent (146 of 244 museums) indicated that they do not raise funds actively. These museums are labelled as fundraising governance level ‘zero’. Forty percent (98 out of 244 museums) indicated that they conduct fundraising consciously and were chosen for subsequent statistical analysis.

### 4.3 Methods

Given our theoretical perspective and substantive purposes, our questionnaire was designed to collect data on two aspects: (1) items for the application of fundraising management practices and (2) items for board governance (see Table 2). Furthermore, we collected data to develop indicators for fundraising performance, for example fundraising income and expenditures. Additionally, we collected data which is used as descriptive variables and as control variables on other museum characteristics such as museum category, annual operating expenses, voluntary fundraising engagement and legal form.

Research Aspects	Items	Factor
<b>Fundraising Management Practices</b>	1 Fundraising strategic performance goal	F ManPrac I
	2 Fundraising performance targets set	Fundraising strategic planning and controlling
	3 Fundraising strategy established	
	4 Performance measurement of each fundraising activity	
	5 Annual performance measurement of fundraising success	
	6 Quality standards for the management of fundraising activities set	No factor (for further explanation see appendix 2)
	7 Fundraisers attend fundraising training	

(Continuation)

	8	Project submission (trusts)	F ManPrac II
	9	Capital campaign	Fundraising techniques
	10	Management of a friends' association	
	11	Requests for patrons	
	12	Corporate donations	
	13	Collection campaigns with traditional mailings	
	14	Internet fundraising	
	15	Telephone fundraising	
	16	Events	
	17	Systematic collaborations with other organizations	
	18	Legacy fundraising	
	19	Acquisition of volunteers	
	20	Requests for benefit in kind	
	21	Merchandising	
<b>Board Governance</b>	1	Active in fundraising: the board members	F Gov I
	2	Fundraising strategy decided by board	Boards' fundraising activity
	3	Achievement of fundraising goals is controlled by board	
	4	Board mobilizes private donors	
	5	Patron and/or businessman as board member	F Gov II
	6	Targeted co-option of (potential) donor on the board	Board as donor
	7	The decision-making documents prepared by the fundraising representative signed unchanged by the board	F Gov III
			Board as symbolic decision maker

Table 2. Research Aspects, Items and Resulting Factors from Factor Analysis and Formative Index Engineering

*Notes:* Items are measured in a three-point scale 0= Not at all, +1= To some degree. +2 = Mainly.

In step 1 of our analysis, we used the selected items for explorative factor analysis and formative index engineering. In step 2, we classified museums into three clusters by cluster analysis and then mapped each class to a fundraising governance level on the basis of theoretical considerations. In step 3, we linked fundraising governance clusters with fundraising performance measures by means of analysis of variance. Furthermore, we tested the influence of the control and the intervening variables of annual operational income, legal form and museum category. All variables were z-standardized and logarithmic transformed (if necessary) to obtain Gaussian normal distributed histograms.

## 5 Results

### 5.1 Fundraising Governance Factors

Factor analysis serves to draw from empirical observations of many different manifest variables (items) to a few underlying latent variables (factors). We undertook an explorative factor analysis with items describing board governance and describing fundraising management practices. All items are measured with a three-point interval scale, and the characteristic values all have the same polarity. With 89 valid cases, we meet the requirement of sufficient sample size (three times as many cases as items). Correlation matrixes show significant correlations among the chosen items (Appendix 1). With items describing fundraising techniques, we developed a summative index as described later. An overview of research dimensions and items can be found in Table 2.

For the factor analysis, the following settings were chosen: principal component analysis for the extraction method and varimax with Kaiser Normalization for rotation method; five missing values are replaced with the mean. All factors were saved as regression factor scores, which has since become a commonly used method in the computation of latent factors in explorative factor analysis (DiStefano *et al.* 2009).<sup>2</sup>

In terms of the research aspect ‘fundraising management practices’, we conducted an explorative factor analysis by using items 1-7. The Kaiser-Meyer-Olkin measure of sample adequacy shows a result of 0.818, which can be rated as ‘meritorious’ (Kaiser and Rice 1974). This means that the data is suitable for this factor analysis. All communalities are between 0.59 and 0.69, showing a good reliability of each item. We identified two components that explain 63.8 percent of total variance. Items 1-5 constitute a factor defined as ‘Fundraising strategic planning and controlling’ (F ManPrac I). Because items 8-21 constitute a formative factor, we computed an additive index by calculating the means of all 14 items. The resulting factor ‘fundraising techniques’ (F ManPrac II) measures the number and intensity of the use of fundraising techniques.

To determine factors within the research aspect ‘board governance’, we conducted an explorative factor analysis with the corresponding items 1-7 (Table 2). The Kaiser-

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<sup>2</sup> There is some discussion about biases in factor score regression. One problem with using regression scores is “indeterminacy” of the scores (DiStefano *et al.* 2009; Grice 2001). ‘Indeterminacy arises from the fact that, under the common factor model, the parameters are not uniquely defined, due to the researcher’s choice of the communality estimate’ (DiStefano *et al.* 2009, p. 7). According to Grice (2001), we run the validity and the univocality tests. In the validity test, all factor scores show high multiple correlation values with the proposed items (all tests  $\geq 0.611$ ) and thus are interpreted as valid. Univocality tests show good results as well (all tests  $\leq 0.250$ ). Here, we checked multiple correlation values of the proposed items of other factors scores of the same factor analysis. Thus, the use of regression factors in further research seems reasonable.

Meyer-Olkin measure of sample adequacy shows a result of 0.627 which can be rated as ‘middling’ (Kaiser and Rice 1974). This means that the data is relatively suitable for this factor analysis. All communalities are between 0.5 and 0.9, showing a good reliability of each item. We identified three components which explain 64.7 percent of total variance. Items 1-4 constitute a factor defined as ‘board’s fundraising activity’ (F Gov I). The second factor is constituted by items 5-6 defined as ‘board as donor’ (F Gov II). Item 7 creates a factor named ‘board as symbolic decision maker’ (F Gov III). For further details, see Table 6. The identified factors are generally confirmed in the current research literature (see this chapter, section 2).

## 5.2 Fundraising Governance Levels

The 146 museums indicating that they do not raise funds actively are labelled as fundraising governance level ‘zero’. We classified the remaining 98 museums, which consciously raise funds, into three clusters by using clustering techniques. Subsequently, we mapped these clusters to fundraising governance levels by means of theoretical considerations.

## 5.3 Statistical Classification of the Museums

We used all factors as cluster variables (Table 2) and applied the common method of hierarchical clustering. The advantage of the hierarchical clustering method is, among other things, its stability when running a test repeatedly. Furthermore, it is exclusive; each museum is assigned to a single cluster. As a proximity measure, we applied Ward’s method. Ward’s method attempts to minimize the sum of the squared distances of points from their cluster centroids. Further settings were squared Euclidian distance measure and single solution of three clusters. Clusters were saved as variables. In the first cluster we found 41 museums; in the second cluster we found 35 museums; and in the third cluster we found 21 museums.

### 5.3.1 Mapping Clusters to Fundraising Governance Levels

To map clusters to fundraising governance levels, we first calculated the median of the factors for all cases per cluster. The scales of the items for each factor were constructed as such that the higher the factors’ median, the more pronounced, or prominent it is (Table 3). For example, factor F ManPrac I has the highest median (1.15) in cluster 3. Therefore, museums belonging to cluster 3 have a very high level of strategic fundraising management. For cluster 2, the development of the museums’ strategic fundraising management is medium (0.15). The museums with the lowest strategic fundraising activities can be found in cluster 1 (-0.85; Table 3, column on the left).



Museums within cluster 1 implement fundraising governance factors most poorly (Table 3). They are aware of the fundraising task, but are not yet purposefully governing their activities. We call this cluster ‘awareness’. Museums within cluster 2 implement governance factors at a middle level of establishing fundraising activities. They are at the level of ‘composition’. Museums within cluster 3 realize governance factors strongly. This cluster is named ‘integration’; here, museums have established corporate fundraising to reach fundraising goals. In the following section, we give a more detailed description of the clusters.

	<b>Factor median</b>				
	<b>F ManPrac I</b>	<b>F ManPrac II</b>	<b>F Gov I</b>	<b>F Gov II</b>	<b>F Gov III</b>
	fundraising strategy and controlling	fundraising techniques	board’s fundraising activity	board as donor	board as symbolic decision maker
<b>Cluster 1</b>	-0.85	-0.68	-0.15	-0.73	-0.14
	low	low	medium	low	low
<b>Cluster 2</b>	0.15	0.44	-0.46	0.04	0.56
	medium	high	low	medium	high
<b>Cluster 3</b>	1.15	0.22	0.97	0.72	0.26
	high	medium	high	high	medium

Table 3. Factor Medians, Factor Ranks are Low, Medium and High

#### CLUSTER ‘AWARENESS’

The museums are aware that they raise funds and have started applying fundraising management and governance. Fundraising strategic planning and controlling is still low (F ManPrac I). In accordance with Kay-Williams (2000), no fundraising targets have been set yet, and organizations at this level are ‘grateful for anything’ (Kay-Williams 2000, p. 228). The fundraising at this stage is chaotic and uncontrolled, or at best self-coordinated. At this stage, there is little to no paid staff involved in fundraising (Kay-Williams 2000, p. 228). Accordingly, the intensity of the use of fundraising techniques (F ManPrac II) is low as well. Simultaneously, the board’s fundraising activity is middle (F Gov I): in analogy to Woods’s ‘founding period’, the boards are relatively active in fundraising (Wood 1992). However, they are rarely purposefully staffed with donors (F Gov II) at this stage. In compliance with Woods’s founding phase, the boards are active decision makers and far from at the stage of making symbolic decisions (F Gov III). It must be noted that the fundraising awareness level should not be confused with the founding period of museums themselves, where Maecenas on the boards may play a more significant role (Beccarelli 2005).

## CLUSTER 'COMPOSITION'

In this phase, structures and fundraising management practices are in the developmental phase as the ranking of the following factors show. The representation of donors on the board is ranked medium (F Gov II), as well as the measure of fundraising strategic planning and controlling (F Man Prac I). The intensity of the use of fundraising techniques is high. In this phase, museums may start to apply various fundraising techniques, but still have no experience of which ones are successful or not (F Man Prac II). 'Board's fundraising activity' is low (F Gov I), and 'board as symbolic decision maker' (F Gov III) is ranked high. This combination of factor characteristics is similar to either an 'executive centered governance model' (Brown 2000; Drucker 1990; Herman and Heimovicz 1990) or a 'staff dominant model' (Murray 1998). In these governance models, the supervisory bodies are less involved in operative fundraising activities, as these tasks are delegated to the management or employees in charge. The role of the board is reduced to blind approval only. The composition level partially resembles Woods's late founding phase, in which the board heavily relies on the executive director and thus does not fulfil their responsibilities (Wood 1992, p. 144).

## CLUSTER 'INTEGRATION'

In this phase of integration, 'fundraising strategic planning and controlling' (F ManPrac I) is high as expected; fundraising strategic performance goals are set, fundraising strategy is established and performance measurement is implemented. This phase is comparable to the phase of 'adulthood'. Fundraising tasks are strategically managed, the board and managers govern, the system is well established, and reporting and accounting are clear (Hudson 1995, in Kay-Williams 2000: 224). If compared with Kay-Williams' fundraising development model, 'integration' may show parallels to stage four 'leave it to us' with a high level of professionalization in performing fundraising tasks (Kay-Williams 2000, p. 227). Accordingly, the intensity of the use of fundraising techniques (F ManPracII) is medium; the applied fundraising techniques may be proven and efficient. Concerning governance, 'board's fundraising activity' (F Gov I) is ranked high, as well as 'board members as donors' (F Gov II). This factor rank combination indicates a strong performance of the board. 'Board as symbolic decision maker' (F Gov III) is ranked as medium, which indicates that board and staff are pulling together and are headed in the same direction. This phase resembles the 'partnership model', in which the CEO and board decide together and both take responsibility for the organization's performance (Cornforth 2001a; Drucker 1990; Hung 1998). There are parallels to Woods's corporate phase, in which tasks and decisions of both the board and executive staff go hand in hand (Wood 1992).

## 5.4 Linkage of Fundraising Governance and Fundraising Performance

Excellence research proposes the linkage of organizational characteristics with performance (Kanji and Sàà 2007; Moullin 2007). Thus, to investigate excellence in the museum sector, we link fundraising maturity levels with fundraising performance. First, we undertake an analysis of variance to evaluate the relation between the clusters and fundraising performance (Figure 1). Second, as organization size (Rentschler and Radbourne 2009) and legal form (Oster and Goetzmann 2003) seem to be relevant concerning fundraising and/or governance, we test the influence of operational expenditure and legal form to confirm the stability of the model.

### 5.4.1 *Fundraising Performance*

In fundraising research and practice, many different measures of fundraising outcomes have been used. ‘There is no commonly agreed method of calculating return on investment by charities’ (Aldrich 2009, p. 358). Numerous studies on the measurement of fundraising performance can be found (see for example Aldrich 2009; Brooks 2004; Ferson 1996; Greenfield 1999; Paton 1999; Ritchie and Kolodinsky 2003; Sargeant and Kähler 1999; Yi 2010). One of the most common fundraising performance measures is the ratio of income from fundraising activities compared with fundraising costs and operational expenditure (or income). We agree with Aldrich (2009) who noted that the problems of the construction of measures lie in their intricacy. To be more specific, activities that can be subsumed under fundraising are not clearly defined. For example, is the distribution of a newsletter to the museums’ friends association a genuine fundraising task or a public relations effort?

In their recent analysis of US arts organizations, Song and Yi (2011) chose the ratio of fundraising expense by direct public support as a measure of fundraising efficiency. They depicted fairly low average fundraising efficiencies for US museums (41 percent; \$0.41 expense raises \$1 private donations) whereas Swiss museums show results of 12 percent. Nevertheless, these results should be interpreted with caution. The figures of fundraising expenses in Swiss museums, for example, are mainly based on estimates, because most museums do not currently record them. Interpreting the measures of fundraising performance should be carried out carefully because (fundraising) success is whatever museums judge it to be (Anderson 2004). So far, a commonly accepted benchmarking methodology of fundraising efficiency does not exist for the comparison of museums. Since museums are highly diverse organizations, it may not be recommendable to strive for benchmarks in the near future. Therefore, if these measures are used internally, it might be legitimate to take gross fundraising income as an absolute number for fundraising performance.

According to these considerations, we identify the following fundraising performance ratios: (1) annual fundraising income to annual operational expenditure (1, see Table 4) and (2) annual fundraising income to annual fundraising expenditure. (3) We apply absolute values of annual fundraising income.

#### 5.4.2 *Linking Fundraising Governance Clusters with Fundraising Performance Indicators*

Among the identified fundraising performance indicators, we now select the one which is appropriate for further analysis. With analysis of variance, we ask whether the identified indicators of fundraising performance differ in a significant way between the three clusters ‘awareness’, ‘composition’, and ‘integration’. The analysis of variance shows two significant performance indicators: (3) fundraising income (sig. < 0.001; adjusted  $R^2$  0.292) and (2) the ratio of fundraising income to fundraising expenditure (sig. =0.006; adjusted  $R^2$  0.178). No significance is detected in the case of fundraising income to operational expenditure (1) (Table 4).

<b>Analysis of Variance</b>	<b>F</b>	<b>Sig.</b>
<b>Fundraising performance indicators</b>		
(1) Fundraising income / operational expenditure in 2009	0.867	0.424
(2) Fundraising income / fundraising expenditure in 2009	5.591	0.006*
(3) Fundraising income in 2009 (log)	18.948	< 0.001*

Table 4. Analysis of Variance

Note: Cluster variable is given factor, \*significant on a  $p < 0.05$  level.

To test the difference of the fundraising performance indicators (2) and (3) between each cluster, we employ ad-hoc-tests. For both indicators (2) and (3), the Levene test shows inhomogeneity of variance (sig. < 0.05). For indicator (2), both the Scheffé test and the Bonferroni test show a high insignificance between groups 1 and 2 (sig. =0.959; 1.00). Consequently, this indicator is discarded. For performance indicator (3), the Bonferroni test shows that the differences in mean values between cluster two and three are just not significant (sig.=0.054). The Scheffé test, however, shows significant results between all groups. The box plot shows nicely how fundraising income increases with each maturity level (Figure 1).

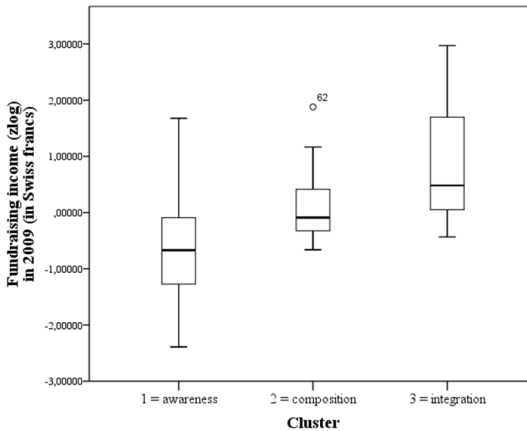


Figure 1. Box Plot

*Note:* Fundraising income is z-transformed and in logarithm scale.

Yi (2010) identified a relationship between fundraising performance and organization size. Therefore, we test the additional influence of the organization size, expressed by operational expenditure by means of a covariate analysis. This shows that although the covariate ‘operational expenditure’ (zlog) has a highly significant influence (sig. < 0.001) on fundraising income, it does not destroy the significant relationship between cluster membership and fundraising income (sig < 0.001). Furthermore, we test the influence of legal form and museum category (Cato 1993) by means of a univariate analysis in the general linear model with fundraising income (zlog) as dependent variable and cluster affiliation, legal form and museum category as fixed variables. The model shows no significant relationship of legal form and museum category to fundraising income, and fortunately, in this model, the significance of the relationship between fundraising income and clusters remains. These results show the robustness of our proposed fundraising governance model.

## 6 Summary and Conclusion

By applying quantitative-statistical methods, we propose a model for fundraising governance that reflects the level of an organization's success in fundraising, specifically in terms of Swiss museums. The results of this study show that fundraising in museums in Switzerland is, for the most part, not a highly developed task at present. Of the 244 investigated museums, 146 do not actively raise funds. Of the 98 investigated museums that do conduct fundraising, 41 museums are 'aware' of fundraising, 35 are on the level of 'composition' and 21 museums are advanced fundraisers on the 'integration' level. By applying the fundraising governance model, museums are better able to determine their individual fundraising governance status as well as where they stand in relation to other museum organizations. Furthermore, the defined factors and their characterizations give indications for further organizational development practice: If museums aim to reach the level 'integration', and thus increase fundraising income, results of this research project suggest that donors should be included on governing boards, that fundraising techniques should be used moderately, and that strategic planning and controlling for fundraising should be implemented. Results further suggest that boards should actively (not symbolically) make decisions on behalf of the decision memo prepared by fundraising staff. Board activity should be moderate and coordinated with the engagement of professional staff. According to our considerations, fundraising income can be used as a sufficient success indicator concerning this model for Swiss museums. Because of its proven robustness, the proposed fundraising governance model can be applied by all different museums organizations regardless of organization size, legal form or museum category.

Methodologically, the fundraising governance model further develops the mainly qualitative and theory-based concepts of dynamic organization life-cycle models by using explorative factor analysis and classification methods. By using explorative factor analysis, we identified different forms of governance in fundraising management. Furthermore, although the fundraising model is tailored to the museums investigated, the explored factors find theoretical validity in the general nonprofit management and governance literature (see section 'Fundraising governance and performance'), which strengthens the plausibility of our statistical results. By taking the identified forms of governance as descriptors, we classified similar cases of museums into three fundraising governance stages. Eventually, we discovered that fundraising income is significantly related to these stages of development.

The fundraising governance model can be developed further as the present study has an explorative, museum-specific character. More empirical evidence through studies on other nonprofit sector segments with carefully collected data on fundraising expenditures, income and fundraising governance items could verify the relevance of the pro-

posed fundraising governance model. Additionally, with identification and inclusion of more factors relevant to fundraising governance, such as the influence of external advice or the number of fundraising staff, the explanatory power of the model, which now explains approximately 30 percent of the variation (adjusted  $R^2 = 0.292$ ), could be raised.

Regarding governance research, our study confirms research that stresses the importance of the inclusion of donors, seen as important stakeholders, on governing boards (Brown 2002; Ostrower 2002). Conversely, our research shows that ‘board activity’ in fundraising is not monotone and does not ascend according to the fundraising governance level and fundraising income, which opposes what can be found in the NPO governance literature (Green and Griesinger 1996; Ostrower and Stone 2006). The high median of the factor ‘fundraising strategic planning on the level of integration’ indicates that strategic management concerning the fundraising task may lead to success despite some skepticism about the applicability of strategic management in the cultural and art sector (Holmes and Hatton 2008; McCain 1992; Turbide *et al.* 2008). Concerning the use of ‘fundraising techniques’, in line with Sargeant and Kähler (1999), control and selection of each fundraising technique are recommended, as the factor median on the level of ‘composition’ is high and then decreases at the level ‘integration’.

Linked with the social mechanism perspective, governance research focuses on activities and entities and how they are related to organizational outcomes. We applied the mainly organization-wide or policy-focused concept of governance to the management task of fundraising. Within this theoretical framework, we contribute the present organization-dynamic model of fundraising governance.

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## Appendixes

### Appendix 1. Correlation Matrixes of Items

<b>Research aspect 'fundraising management practices'</b>	Fundraising strategic performance goal	Fundraising performance targets set	Fundraising strategy established	Performance measurement of each fundraising activity	Annual performance measurement of fundraising success	Quality standards for the management of fundraising activities set	Fundraisers attend fundraising training
Fundraising strategic performance goal	1	,487**	,505**	,461**	,420**	,098	,161
Fundraising performance targets set	,487**	1	,509**	,477**	,456**	,234*	,217*
Fundraising strategy established	,505**	,509**	1	,450**	,513**	,290**	,338**
Performance measurement of each fundraising activity	,461**	,477**	,450**	1	,551**	,242*	,434**
Annual performance measurement of fundraising success	,420**	,456**	,513**	,551**	1	,324**	,321**
Quality standards for the management of fundraising activities set	,098	,234*	,290**	,242*	,324**	1	,457**
Fundraisers attend fundraising training	,161	,217*	,338**	,434**	,321**	,457**	1

(Continuation)

<b>Research aspect 'board governance'</b>	Patron and/or businessman as board member	Targeted co-optation of (potential) donor on the board	Active in fundraising : the board members	Fundraising strategy decided by board	Achievement of fundraising goals controlled by board	Board mobilizes private donors	Decision-making documents prepared by fundraising representative signed unchanged by board
Patron and/or businessman as board member	1	,488**	.158	.181	,254*	.093	-.012
Targeted cooptation of (potential) donor on the board	,488**	1	.037	.188	,210*	.196	.146
Active in fundraising: the board members	.158	.037	1	,217*	,245*	,296**	.042
Fundraising strategy decided by board	.181	.188	,217*	1	,444**	,434**	-.014
Achievement of fundraising goals controlled by board	,254*	,210*	,245*	,444**	1	,290**	.158
Board mobilizes private donors	.093	.196	,296**	,434**	,290**	1	-.020
Decision-making documents prepared by fundraising representative signed unchanged by board	-.012	.146	.042	-.014	.158	-.020	1

Notes: Correlation matrixes of items; pearson 2-tailed; \*\* significant on a p<0.01 level; \* significant on a p<0.05 level; N=98

## Appendix 2. Factor Analysis

Research Aspects	Items	Rotated Component Matrix Factor Loadings		Factor	Cronbach Alpha	Notes
<b>Fundraising Management Practices</b>		<b>1</b>	<b>2</b>			Rotation converged in 3 iterations.
1	Fundraising strategic performance goal	0.819	0.083	F ManPrac I	$\alpha = 0.821$	Cronbach alpha reliability coefficient indicated a good level of internal consistency ( $\alpha = 0.821$ ).
2	Fundraising performance targets set	0.768	0.110	Fundraising strategic planning and controlling		
3	Fundraising strategy established	0.735	0.259			
4	Performance measurement of each fundraising activity	0.690	0.348			
5	Annual performance measurement of fundraising success	0.683	0.348			
6	Quality standards for the management of fundraising activities set	0.101	0.829	No factor	none	The factor resulting from items 6 and 7 is not considered because the histogram of the factor is too far from normal distribution.
7	Fundraisers attend fundraising training	0.194	0.811			
8	Project submission (trusts)			F ManPracII		
9	Capital campaign					
10	Management of a friends' association	Mean		Fundraising techniques	none	Because factor V is formative, we did not perform a factor analysis, but computed the means of all 14 items (see items 8-21).  The resulting factor 'fundraising techniques' measures the number and intensity of the use of fundraising techniques.
11	Requests for patrons					
12	Corporate donations					
13	Collection campaigns with traditional mailings					
14	Internet fundraising					
15	Telephone fundraising					
16	Events					
17	Systematic collaborations with other organizations					
18	Legacy fundraising					
19	Acquisition of volunteers					
20	Requests for benefit in kind					
21	Merchandising					



(Continuation)

Research Aspects	Items	Rotated Component Matrix			Factor	Cronbach Alpha	Notes
		Factor Loadings					
Board Governance		1	2	3			Rotation converged in 4 iterations.
1	Active in fundraising: the board members	0.615	-0.036	0.047	F Gov I	$\alpha = 0.64$	Cronbach alpha reliability coefficient indicated a mediocre level of internal consistency ( $\alpha = 0.64$ ). Nevertheless, this measure is acceptable considering that the factor shows reasonable unidimensionality (Schmitt 1996; Miller 1995).
2	Fundraising strategy decided by board	0.751	0.162	-0.057	Board's fundraising activity		
3	Achievement of fundraising goals controlled by board	0.643	0.254	0.272			
4	Board mobilizes private donors	0.746	0.058	0.103			
5	Patron and/or businessman as board member	0.114	0.854	-0.081	F Gov II	$\alpha = 0.65$	Cronbach alpha's reliability coefficient indicated a mediocre level of internal consistency ( $\alpha = 0.65$ ). As we argued above, this result can still be regarded as acceptable for use in further investigations.
6	Targeted co-optation of (potential) donor on the board	0.088	0.844	0.134	Board as donor		
7	The decision-making documents prepared by the fundraising representative signed unchanged by the board	0.004	0.028	0.973	F Gov III	none	

*Notes:* Factor analysis, factor loadings varimax rotation, factor name, cronbach alpha, reseach notes.



## Study 2: Factors of Board Governance and Fundraising Success: The Composition of Swiss Museum Boards Does Matter

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### Abstract

*This article presents an empirical analysis of board governance and fundraising performance in a sample of 98 Swiss museums. Through multiple regression analysis, the inclusion of donors and business professionals on museums' boards is identified as a significant success factor for fundraising governance in Swiss museums. This study substantiates the central role which board composition plays in arts management and nonprofit research. Through covariance analysis, the relevance of the variables 'organization size' and 'legal form' is further discussed.*

**Keywords:** fundraising, museums, board governance, performance, multiple regression analysis

**JEL Classification:** M00; C2; Z1

### 1 Introduction

Of the Swiss museums surveyed in the present study, 23 indicated that the importance of fundraising will increase over the next five years. A greater reliance on private donations inevitably leads to the need for professionalization in fundraising management (Cray *et al.* 2007; Sicca and Zan 2007). In nonprofit organizations (NPOs), this includes not only the professionalization of the staff but also a development of the governing boards. Therefore, determining how governance structures and mechanisms can be effectively established for successful fundraising in museums is becoming increasingly important.

In nonprofit research, there is a concentration on the measurement of fundraising success (Aldrich 2009; Brooks 2004; Paton 1999) on the one hand, and on organizational strategies and structures for fundraising management on the other. In this respect, the central role of the steering boards is emphasized by various authors (Greenfield 2009; Ostrower and Stone 2006). The link between board governance and organizational or fundraising performance has been analyzed by a few authors in nonprofit research (Brown 2005; Callen *et al.* 2003; Cornforth 2001; Hodge and Piccolo 2005). In museum research, board governance (Ostrower 2002; Bieber 2003; Cato 1993; Oster and Goetzmann 2003) is a well-established research subject, as is research on museum performance (Anderson 2004; Paulus 2003). Betzler and Gmür (2012) clustered board governance variables and related each cluster to fundraising income; however no analy-

sis has been found that statistically explores the link between the governance of museums and fundraising performance by regression analysis.

The aim of this research project is to statistically analyze the relationship between factors of board governance and fundraising performance in museums. In terms of methodology, we use multiple regression analysis, which is in accordance with general Business Excellence research, where the linkage of performance measures to bundles of characteristics of organization are being investigated (Kanji and Sää 2007; Kanji 1998).

In this paper, we first outline the current state of research concerning board governance and its link to fundraising performance. We then present the data sample and research methodology. The results are outlined in two steps, consisting of a factor analysis and a regression analysis, and are then discussed. Finally, we offer several conclusions for research and practice.

## **2 Board Governance, Fundraising, and Performance**

### **2.1 Definition of Governance**

Reduced to its least common denominator, governance can be defined as the different mechanisms that create order among a population of actors (Mayntz 2009). Thus, governance research is closely related to the ‘social mechanism explanation’, a concept currently receiving considerable attention in the social sciences (for an overview see Hedström and Ylikoski 2010). Mechanisms are defined as ‘...entities and activities organized such that they produce regular changes from start to finish.’ (Machamer *et al.* 2000). This understanding also involves effect orientation: an input leads to a result of intended, organized structure and activity (Hedström and Ylikoski 2010). We also find within governance research a tendency towards a structuralistic approach, with determinants like organizational and decision-making structures, procedures, standards, and rules (see Anheier 2005). This research project focuses on the governance mechanisms that contribute to the fulfilment of the task of fundraising. Fundraising is understood here as ‘...the systematic procurement of needed resources without giving a market adequate consideration.’ (Urselmann 2007). Based on previous considerations, fundraising governance is defined as follows: ‘Fundraising governance is the name for mechanisms (organizational and decision making structures, procedures, standards, and rules) implemented for the systematic procurement of needed resources without giving a market adequate counter-performance.’

The effects of fundraising are often measured using fundraising success indicators (Yi 2010), which are discussed later in step two in the results section of the present study. Concerning the input of fundraising governance, we consider governing boards

due to the crucial role they play in nonprofit organizations and because they influence fundraising activities in important ways.

## 2.2 Board Governance

In nonprofit governance research and practice, the nonprofit supervisory board is seen as 'a subject of enormous importance' as it is given the 'ultimate responsibility' for its organization (for an overview see Ostrower and Stone 2006). The investigation of the link between board governance and performance is receiving increasing attention. Herman and Renz (2008) list several studies that confirm a relationship between board effectiveness and organizational effectiveness (Herman *et al.* 1996; Brown 2005; Jackson and Holland 1998). The different roles and different tasks of a board, the formation of a board's relationship with the executive management, and the composition of a board define the various governance models or typologies within which organizations are run (Bradshaw *et al.* 2007; Cornforth 2001; Duca 1996; Hung 1998; Murray 1998; Ostrower and Stone 2006); these are described in more detail as follows:

### 2.2.1 Board Activity

Many researchers see fundraising as one of the most important activities of nonprofit supervisory boards (Hodge and Piccolo 2005; Greenfield 2009; Ostrower and Stone 2006; Green and Griesinger 1996; Cornforth 2001; Hung 1998). In empirical tests with a sample of English charities, Cornforth (2001) tested the links between the inputs and processes of a board and a board's effectiveness. He found that 'helping raise funds and other resources' was one significant board function which explains the overall board effectiveness of an organization (Cornforth 2001). The results of a study of social service agencies indicated that especially privately funded nonprofit agencies were more likely to use certain techniques to activate board members (Hodge and Piccolo 2005). In museums (Bieber 2003; Griffin 1991; Griffin and Abraham 2000; Ostrower 2002) and other arts organizations (Paulus and Lejeune 2012), fundraising is also an important task of the board. A recent study carried out by Paulus and Lejeune (2012) compared two artist-in-residence organizations. Using grounded theory, the analysis indicated that one of the board's core activities was 'helping', which included fundraising. In her study on museum and theatre arts boards, Ostrower (2002) discovered that actively raising funds is one of a board's most important activities. In contrast, a study on the effective management of 33 Australian and Canadian museums (Griffin *et al.* 1999) found a rather weak statistical incidence of the importance of a museum's board in fundraising with just over five percent of the variation. However, the active contribution of board members to fundraising was the strongest item of their board factor.

### 2.2.2 *Board-Staff Relations*

According to Wood's dynamic model of the development of boards in nonprofit organizations (1992), the executive director eventually gains the board's confidence and performs tasks more and more independently (Wood 1992). In this situation, the board approves the managing director's decision memos without detailed review. Studies of arts boards show that with the emergence of professional arts managers, the governing body develops into a more symbolic decision-making entity, reliant on the suggestions of the professional staff (DiMaggio and Useem 1978; Ostrower 2002). McPherson (2006) points out that museum staff deal with fundraising more and more. In theory, models of governance suggest two ideal-typical forms of the board-staff relationship. The first is a harmonious partnership with the leadership core, while the second is a hierarchical relationship of authority with the board in a superior position (Ostrower and Stone 2006). Empirical research of arts boards however reveals numerous different, complex patterns of relationships which vary between these ideal types (for example see Ostrower and Stone 2006). In medium size and smaller arts institutions, the relationship between the board and the executive management is often not clearly defined (Zehnder 2002). Paulus and Lejeune (2012) highlight the importance of the executive director as 'governance entrepreneur', whose important role is to design the board's composition in terms of members as well as its activities. Thus, in order to explore a board's fundraising role, the independence of the staff with regard to fundraising should be considered.

### 2.2.3 *Board Composition*

Apart from the board's activities and its relationship to the executive directors, the composition of the board and its fit to its environment is an important aspect in nonprofit research on boards (in accordance with resource dependency, see Brown and Iverson 2004; Brown 2002; Pfeffer 1972). Thus, the inclusion of donors on the boards of museums is of interest to this study. Ostrower (2002) observes that board members often serve as donors themselves feeling moral pressure to donate. Moreover, in line with Oster and Goetzmann (2003), Ostrower observes that the incorporation of donors on the board is one of the most powerful fundraising tools (Ostrower 2002). This is also the case in Switzerland where wealthy patrons of the arts often play central roles, for example as major donors of museum buildings, founders of the museum organization, and donors or permanent lenders of their art collections. Major donors often have an enormous influence on museum boards as reported by one board member of a Swiss museum of modern and contemporary art (Darier 2010). Apart from donors, business representatives seem to be another stakeholder group which appears relevant in connection with private funding. Anderson (2005) finds a significant influx of businessmen and bankers on UK museum committees and boards. Griffin (2008) observes that museums with high fiscal rectitude and some need for private funding appoint more and

more people from business to governing boards. However, he points out that this development may not necessarily lead to the successful performance of a museum.

### **3 Methodology: Data Collection, Sample Characteristics, and Methods**

#### **3.1 Data Collection**

Apart from a few exceptions (Alexander 1996; Anderson 2004; Hughes and Luksetich 1999; Beccarelli 2005), specific museum research provides little information related to museum fundraising. In order to gather more information on the fundraising situation, data was collected in 2010 from a list of 1065 contacts from 730 museums provided by the Swiss Museum Association. In emails sent by the Association to the contacts, participation was requested and a link to an online questionnaire was given. After two email requests were sent out and telephone consultations were carried out in part, 244 museums replied. A response rate of approximately 33 percent was achieved, which lies between the response rates of previous research on Swiss museums (39 percent Beccarelli 2005; 22 percent Helmig *et al.* 2007).

Collecting data from the museums was a difficult task. In 64 cases, incomplete and implausible data was received, particularly with regard to scale variables such as operating income, fundraising revenue, and fundraising budget. Therefore, follow-ups were conducted twice by email or telephone. Of the 64 museums, 23 did not respond, 20 corrected the implausible details, and 21 claimed they had responded correctly despite implausible and missing data. It was explained that, for example, ambiguous data in fundraising income was due to a single donation, or missing operating income was due to the renovation work of a museum. As a result of this procedure, the quality of the data set was increased considerably.

#### **3.2 Sample Characteristics**

Swiss museums, like all museums, are highly diverse in size, legal form, and finance and they operate in different fields (Oster and Goetzmann 2003; Anderson 2005; Lindquist 2007). The survey results of the full sample of 244 museums concerning category, legal form, and annual operational income were very similar to those found by the Swiss case study of the John Hopkins Comparative Nonprofit Sector Project (Helmig *et al.* 2007). Thus, the present sample appears to represent the population of Swiss museums adequately. Museum financing of the 244 interviewed museums shows similar results to a research project on the financing of Swiss museums in 2003 by Beccarelli (2005) with virtually the same results for fundraising income (20 percent

versus 18.8 percent), a little lower for self-generated income (40 percent versus 36.2 percent), and slightly higher for share of state subsidies (40 versus 45 percent; Beccarelli, 2005, p. 231–232). Swiss museums depend only half as much on private funding as do, for example, US museums, whose share from private funding is about 40 percent (Anheier and Toepler 1998; Toepler and Dewees 2005; Hughes and Luksetich 2004; Song and Yi 2011). By comparison, UK arts museums only receive 15 percent of arts income from private investment (Mermiri 2010).

From the full sample of 244 museums, we filtered the 98 museums which indicated that they were actively engaged in raising funds (40 percent). This subsample was interviewed in detail on fundraising organization and practices, and it is used further in this research project. Thus some of the main characteristics of the subsample, as well as in comparison to the full sample of 244 museums, are described below.

The surveyed museums represent eight different museum categories based on the Swiss Museum Association's official categorical system, whereas cross tabulation shows that the subgroup of the museums active in fundraising differ from the full sample (pearson  $\chi^2 = 29.4$ ,  $p < 0.000$ ,  $df = 7$ ,  $N = 244$ ). Examination of the cell frequencies shows that art museums and natural science museums are more strongly represented than expected in the subsample of the museums active in fundraising (Table 1).

		Is fundraising carried out at your museum?		Total
		yes	no	
<b>Regional and local museum (local, city, or regional history)</b>	Count	24	64	88
	Expected count	35.3	52.7	88.0
	% within museum category	27.3%	72.7%	100.0%
<b>Art museum (visual and applied art, architecture, church treasures)</b>	Count	23	13	36
	Expected count	14.5	21.5	36.0
	% within museum category	63.9%	36.1%	100.0%
<b>Ethnographic museum (European, non-European cultures)</b>	Count	2	0	2
	Expected count	.8	1.2	2.0
	% within museum category	100.0%	0.0%	100.0%
<b>Technical museum (science, technology, industrial history, traffic, telecommunications)</b>	Count	10	13	23
	Expected count	9.2	13.8	23.0
	% within museum category	43.5%	56.5%	100.0%



(Continuation)

<b>Natural science museum (medicine, health system, botanical and zoological gardens)</b>	Count	12	5	17
	Expected count	6.8	10.2	17.0
	% within museum category	70.6%	29.4%	100.0%
<b>Themed museum (special collections, etc.)</b>	Count	20	28	48
	Expected count	19.3	28.7	48.0
	% within museum category	41.7%	58.3%	100.0%
<b>Archeological museum</b>	Count	0	6	6
	Expected count	2.4	3.6	6.0
	% within museum category	0.0%	100.0%	100.0%
<b>Historical museum</b>	Count	7	17	24
	Expected count	9.6	14.4	24.0
	% within museum category	29.2%	70.8%	100.0%
<b>Total</b>	Count	98	146	244
	Expected count	98.0	146.0	244.0
	% within museum category	40.2%	59.8%	100.0%

Table 1. Cross Table, Museum Category by Fundraising Activity  
Notes:  $\chi^2(7, N = 244) = 29.4, p < 0.000$

Most of the museums active in fundraising are associations and private foundations (30 percent), followed by decentralized public forms like public corporations and foundations (20 percent), centralized forms of public administration (14 percent), and private, profit-oriented forms like private limited companies or joint-stock companies. The museums engaged in fundraising do not differ much from the full sample and no relationship was found between the groups (pearson  $\chi^2 = 8.42, p < 0.077, df = 4, N = 244$ ; Table 2).

		Is fundraising carried out at your museum?		Total
		yes	no	
<b>Public administration, centralized</b>	Count	14	35	49
	Expected count	19.7	29.3	49.0
	% within legal form	28.6%	71.4%	100.0%
<b>Public administration, decentralized (public corpo- ration/foundation)</b>	Count	20	21	41
	Expected count	16.5	24.5	41.0
	% within legal form	48.8%	51.2%	100.0%
<b>Association</b>	Count	30	47	77
	Expected count	30.9	46.1	77.0
	% within legal form	39.0%	61.0%	100.0%

(Continuation)

<b>Private foundation</b>	Count	30	30	60
	Expected count	24.1	35.9	60.0
	% within legal form	50.0%	50.0%	100.0%
<b>Other private legal forms (profit-oriented such as ltd., joint-stock company)</b>	Count	4	13	17
	Expected count	6.8	10.2	17.0
	% within legal form	23.5%	76.5%	100.0%
<b>Total</b>	Count	98	146	244
	Expected count	98.0	146.0	244.0
	% within legal form	40.2%	59.8%	100.0%

Table 2. Cross Table, Museum Legal Form by Fundraising Activity

Notes:  $\chi(4, N = 244) = 8.42, p < 0.077$ .

In the museums active in fundraising, museum size in terms of annual operational expenditure ranges from 1,500 Swiss francs (\$1,576, exchange rate of March 11 2013) to 11m Swiss francs (\$11.56m). A total of 14 percent of museums are under 20,000 Swiss francs (\$21,016), whereas 42 percent lie between 20,000 and 0.5m Swiss francs (\$5.53m) annual expenditure. Analysis of variance shows that the group of museums active in fundraising represents museums with significantly higher mean operational expenditure (Anova-test sig. 0.001; test of homogeneity of variance sig. 0.000).

The average size of a Swiss museum board is 9 members. The governing boards of the museums that are active in fundraising are mainly made up of politicians (22 percent), business representatives and patrons (13 percent), and scientists and art historians (17 percent; Table 3). Specification of the group 'other' is necessary for a more comprehensive description of the board composition.

	<b>Business representatives and maecenas</b>	<b>Politi- cians</b>	<b>Ar- tists</b>	<b>Foun- dation representatives</b>	<b>Gal- lery owner</b>	<b>Art collec- tors</b>	<b>Scien- tists and art historians</b>	<b>Oth- ers</b>	<b>Sum</b>
<b>Absolute Values</b>	123	209	43	89	8	14	157	271	914
<b>Percen- tages</b>	13%	23%	5%	10%	1%	2%	17%	30%	100%

Table 3. Representatives on Swiss Museum Boards

Notes: N=98

The four major fundraising activities identified in our study of the 98 actively-engaged museums were management of friends' associations (50.4 percent), trust fundraising by project submissions (46.3 percent), organizing of events (43.9 percent), and acquisition of volunteers (40.2 percent). Taking into account the important role of patrons in the museum sector (Sargeant *et al.* 2002), it is surprising to find that, at 27.5 percent, targeted requests for patrons is currently not a dominant fundraising activity in Swiss museums.

### 3.3 Methods

Given our theoretical perspective and substantial interests, the questionnaire was designed to collect data items on board governance (see Table 4). Furthermore, data was collected to develop indicators for fundraising performance, for example fundraising income and expenditures. In addition, data was collected on annual operating expenses and legal form, which are used as covariates. In step one, we use the selected items for explorative factor analysis. In step two, we carry out multiple linear regression analysis.

## 4 Results

### 4.1 Step One: Identification of Board Governance Factors

Factor analysis serves to draw from empirical observations of many different manifest variables (items, indicators) to a few underlying latent variables (factors). This method, although earlier critically discussed in the sociological statistic epistemic community (Hanly Furfey and Daly 1937), has advantages as well. For example, it reduces variables in the data set and factors have better measurement characteristics. For the factor analysis of this study, the following settings are chosen: the extraction method is Principal Component Analysis and the rotation method is Varimax with Kaiser Normalization. Five missing values are replaced with mean. The factors obtained are saved as regression factor scores, a method which has since become commonly used to compute latent factors in explorative factor analysis (DiStefano *et al.* 2009).<sup>1</sup>

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<sup>1</sup> There is some discussion about biases in factor score regression. One problem with using regression scores is 'indeterminacy' of the scores (DiStefano *et al.* 2009; Grice 2001). 'Indeterminacy arises from the fact that, under the common factor model, the parameters are not uniquely defined, due to the researcher's choice of the communality estimate' (DiStefano *et al.* 2009). According to Grice (2001), validity and univocality tests were carried out. In the validity test, all factor scores show high multiple correlation values with the proposed items (all tests  $\geq 0.611$ ) and thus are interpreted as valid. Univocality tests show good results as well (all tests  $\leq 0.250$ ). Here, we checked multiple correlation values of the proposed items of other factor scores of the same factor analysis. Thus, the use of the regression factors for further research makes sense.

To find factors within the research topic of board governance in fundraising, we conduct an explanatory factor analysis with the corresponding items 1-7 (Table 4). The Kaiser-Meyer-Olkin measure of sampling adequacy shows a result of 0.627, which can be rated as 'middling' (Kaiser and Rice 1974), indicating that the data is relatively suitable for factor analysis. Since all communalities are between 0.5 and 0.9, there is a good reliability for each item. We identify three components which explain 64.7 per cent of total variance.

The following items constitute factor one: Interviewees are asked on a 3-point scale (0= not at all, +1= to some degree, +2 = mainly) whether the museum's board is active in fundraising (Item 1), whether their fundraising strategy is decided by their board (Item 2), whether the achievement of fundraising goals is controlled by the board (Item 3), and whether the board mobilizes private donors to donate (Item 4; Table 4). As all items describe a board which manages actively, we define this factor as '*board's fundraising management activity*' (F Gov I).

The second factor is constituted by items 5-6 as follows: We first add up the variables which indicate whether patrons or business representatives make up part of the board (Item 5). While patrons of the arts are inherently donors, we assume that trustees who are more business-oriented '...may be more likely to focus on the institution's business needs....' (Ostrower 2002). Their contributions do not lie in professional expertise in the arts but rather in giving money and/or using their networks to attract more donors. In contrast, politicians and foundation representatives are not seen as private donors or business representatives, nor are they like artists, art collectors, gallery owners, or scientists who contribute with their expert knowledge in the arts (compare Table 3). Second, we ask whether their museum deliberately co-opts donors onto their boards (item 6). Both items describe the aspect of inclusion; consequently, we define this factor as '*inclusion of donor and business representative on the board*' (F Gov II).

Item 7 represents the third factor: '*board as symbolic decision maker*' (F Gov III). Based on a five-point scale, respondents reply to the question of whether the decision-making documents prepared by the fundraising representatives were signed unchanged by the board. Item 7 serves as an indicator of the independence of the staff in fundraising matters. It should be noted that the description by one item only may lead to lower measurement accuracy. Due to theoretical considerations (see section entitled 'Board-staff relations'), this factor has been retained for the analysis. The factor analysis procedure with Varimax rotation produces regression factors independent from each other. Although it might be a simplification of reality to assume zero correlation among the three factors, the high factor loadings thus show that the individual items can be clearly assigned to each factor and therefore a clear separation is reasonable (Table 4). For the

theoretical justification of the three identified factors, see section above, entitled 'Board Governance'.

Items					Cronbach Alpha	Notes
	1	2	3			
1 Active in fundraising: board members	0.615	-0.036	0.047	F Gov I  board's fundraising management activity	$\alpha = 0.64$	Cronbach alpha reliability coefficient indicated a mediocre level of internal consistency ( $\alpha = 0.64$ ). Nevertheless, this measure is acceptable considering the factor shows reasonable unidimensionality (Schmitt 1996; Miller 1995).
2 Fundraising strategy decided by board	0.751	0.162	-0.057			
3 Achievement of fundraising goals is controlled by board	0.643	0.254	0.272			
4 Board mobilizes private donors to donate	0.746	0.058	0.103			
5 Patron and/or businessman participant of board	0.114	0.854	-0.081	F Gov II  inclusion of donor and business representative on board	$\alpha = 0.65$	Cronbach alpha reliability coefficient indicated a mediocre level of internal consistency ( $\alpha = 0.65$ ). As argued above, this result can still be regarded as acceptable for use in further investigations.
6 Targeted co-option of (potential) donor on board	0.088	0.844	0.134			
7 The decision-making documents prepared by the fundraising representative signed unchanged by the board	0.004	0.028	0.973	F Gov III  board as symbolic decision maker	none	

Table 4. Factor Analysis

Notes: Rotated Component Matrix, Resulting Factors from Factor Analysis; N = 98, Items are measured in a three-point scale 0= not at all, +1= to some degree. +2 = mainly.

## 4.2 Step Two: Identification of Critical Success Factors

In accordance with Business Excellence research, we identify relations between each of the three board governance factors and fundraising performance in order to explore critical success factors (Kanji 1998). We identify fundraising performance measures as dependent variables and board governance factors as independent variables.

### 4.2.1 *Dependent Variable: Fundraising Performance in Museums*

Performance measurement is a risky undertaking in museums because the interpretation of performance results is at the mercy of different stakeholder groups. In contrast, simple performance indicators that are generally applied, such as number of visitors, do not reflect the museum's full range of achievements (Paulus 2003). For this reason, many museums try to avoid performance measurement and focus on alternative hedging strategies, such as image building and lobbying. Our experience in data collection underpins these conclusions. Half of the museums were not able to provide data on fundraising expenses because they do not collect these measures. Fortunately, only a few of the museums do not monitor their fundraising income at all (9 of 98 cases).

In fundraising research and practice, many different measures of fundraising performance are used. For example, Greenfield's workbook 'Fund-raising Cost Effectiveness' (Greenfield and Griesinger 1996) provides a nine-point performance index which combines nine measures, among them are gross revenue, net revenue and fundraising efficiency. To date, '...there is no commonly agreed method of calculating return on investment by charities' (Aldrich 2009). Some widely used fundraising performance measures are the ratios of income from fundraising activities compared with fundraising costs as well as with operational expenditure or income (Aldrich 2009; Paton 1999; Brooks 2004). For further research, we have chosen the following fundraising performance measures based on the collected data: First, annual fundraising income to annual operational expenditure ratio (1) and second, absolute values of annual fundraising income were applied (2). There is currently no comparable benchmarking methodology commonly accepted today for the fundraising efficiency of museums. In total, approximately 17m Swiss francs were raised by the 98 museums active in fundraising in 2009, which represents a mean fundraising efficiency of 0.43. The descriptive statistics of the variables can be found in Table 5.

		<b>Fundraising Efficiency</b>	<b>Fundraising income</b>
N	Valid	68	98
	Missing	30	0
Mean		0.43	175.719
Median		0.04	35.500
Std. Deviation		1.47	580.406
Total			17.220.503

Table 5. Descriptive Statistics of Fundraising Efficiency and Fundraising Income  
Notes: Data from 2009, in Swiss Francs; N=98

#### 4.2.2 *Linking Fundraising Governance Factors with Fundraising Performance*

Both identified fundraising measures as well as all three board governance factors are continuous and on a metric scale level. Consequently, we apply the multiple linear regression method, which is commonly used in Business Excellence research ( $Y = \beta_1 * X_1 + \dots + \beta_n * X_n + \epsilon$ ). Each fundraising measure is a dependent variable (Y), and all three governance factors are independent variables ( $X_1, X_2, \dots, X_n$ ).

The dependent variables are logarithmically transformed to obtain a Gaussian normally distributed histogram and all variables are then entered into a block. Nine of 98 cases show missing data. Since Little's MCAR test shows significance values of greater than 0.05 ( $\chi^2 = 4.499$ , DF = 8, sig. = 0.810), we conclude that the data are missing at random and therefore exclude the cases list-wise (N=89). While we find no significant results when applying dependent fundraising performance measure 1 (annual fundraising income divided by annual operational expenditure)<sup>2</sup>, we achieve the following results when applying measure 2 (absolute values of annual fundraising income): We identify one significant factor 'inclusion of donor and business representative on the board' (F Gov II) with an adjusted R<sup>2</sup> of 0.154. The standardized  $\beta$  coefficient is 0.42 (sig. 0.000; Table 6; Model 1).

<sup>2</sup> Regression with performance ratios fundraising income to fundraising operational expenditure, and fundraising income to fundraising expenditure do not show any results.

	Model 1		Model 2		Model 3	
	Stand. Coeff. Beta	Sig.	Stand. Coeff. Beta	Sig.	Stand. Coeff. Beta	Sig.
Board's fundraising management activity (F Gov I)	.113	.253	.117	.170	.105	.231
Board as symbolic decision maker (F Gov III)	-.026	.790	-.065	.446	-.056	.524
Inclusion of donor and business representative on board (F Gov II)	.416	<.001**	.306	.001**	.317	.001**
Operational expenditure in 2009 (log)			.494	<.001**	.490	<.001**
Legal form 1: Public administration, centralized					.335	.075
Legal form 2: Public administration, decentralized (public corporation/foundation)					.312	.123
Legal form 3: Private foundation					.401	.073
Legal form 4: Association					.462	.045*
<b>Adjusted R square</b>	<b>0.154</b>		<b>0.383</b>		<b>0.386</b>	

Table 6. Multiple Linear Regression Analysis

Notes: Fundraising income (log) in 2009 (in Swiss francs) as dependent variable. F Gov I, F Gov II, F Gov III as independent. Operational expenditure and legal forms as covariates. Model 1-3; N=89;

\* significant on a p<0.05 level, \*\* significant on a p < 0.01 level.

The regression figure clearly shows the linkage of fundraising income in 2009 with the factor F Gov II. Although not strong, it is still identifiable (Figure 1). We examine the independence and normal distribution of the residuals by residual analysis and conclude that the results are satisfactory (Figures 2a, 2b, 2c, see Appendixes). Although the Durban-Watson test of autocorrelation in the residuals is not perfect, it is still acceptable (1.62). The variation inflation factor (VIF) is consistently below seven, thus multicollinearity is unlikely (Kutner *et. al.* 2004).



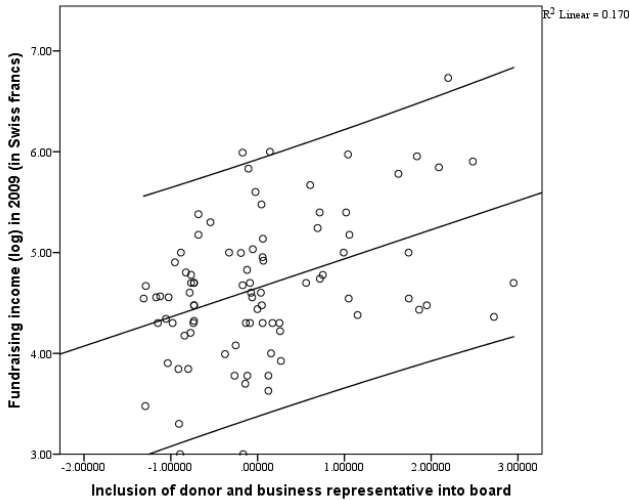


Figure 1. Linear Regression Line

Notes: Fundraising Income (log) in 2009 (in CHF) as dependent variable, F Gov II as independent, confidence interval 0.95 is marked.

#### 4.2.3 Relevant Covariates: Organization Size and Legal forms

Previous studies have shown that organization size has some influence on organization performance (Rentschler and Radbourne 2009). As there are no consistent measures to describe the size of arts organizations (Chang 2010), we have decided museum size is best described by annual organizational expenditure. Since museums do not usually achieve large surpluses, they can only spend what they receive as a total budget. While performance measure 1 (the annual fundraising income to annual operational expenditure ratio) takes organization size into account as the denominator of the ratio, performance measure 2 (the absolute values of annual fundraising income) does not consider organization size at all. Therefore, we use the absolute value of fundraising income. The correlation table (Appendix 1) shows that fundraising income (log), annual operational expenditure in 2009 (log), and the significant board governance factor (F Gov II, ‘inclusion of donor and business representative on the board’) are significantly correlated. To further analyze this relationship, we transform ‘operational expenditure in 2009’ logarithmically to obtain a Gaussian normally distributed histogram, and include it in the multiple linear regression model (Table 6; Model 2). As expected, the results show a significant relationship of the covariate ‘operational expenditure’ to fundraising income. The explanatory power of the model increases with an adjusted  $R^2$  of 0.383 compared to

the previous model. The factor 'inclusion of donor and business representative on the board' remains significant. Thus, the organization size as moderator variable does not negatively affect the link of F Gov II to fundraising income.

Since legal forms provide an important frame for the governance of museums as well (Oster and Goetzmann 2003), we add the nominal variable 'legal form' by computing dummies for each category such as for example association or private foundation. For the values and distribution see sub-section above entitled 'Sample Characteristics'. The regression model shows significant results for the association (Table 6; Model 3). The association of the factor 'inclusion of donors and business representatives on the board' with fundraising income remains positively significant here as well. The additional explanatory power of Model 3 expressed by the adjusted  $R^2$  thus increases only by 0.006 points.

#### ANALYSIS OF LEGAL FORM SUBGROUPS OF MUSEUM MANAGEMENT

To achieve a better understanding, we compare the legal form data groups and run multiple linear regressions for each legal form subset (Appendix 2). The results of Model 1, which relate fundraising income with the three board governance factors, show that the factor 'board as symbolic decision maker' (F Gov III) suddenly becomes significant in the subgroup of museum as a department of the centralized public administration (with an adjusted  $R^2$  of 0.305 and a Standard Coefficient  $\beta$  coefficient of -0.677; sig. 0.049; N=14). Since the negative standard  $\beta$  coefficient indicates a negative influence, it can be concluded that fundraising income increases if the board is not merely a symbolic decision-maker but rather actively decides upon fundraising matters.

The 'inclusion of donors and business representatives on the board' (F Gov II) is particularly significant for the typical third-sector nonprofit legal forms: the association (with an adjusted  $R^2$  of 0.273 and a standardized  $\beta$  coefficient of 0.554; sig. 0.003; N=29), as already identified in the full model, and the private trust (with an adjusted  $R^2$  of 0.146 and a standardized  $\beta$  coefficient of 0.516; sig. 0.015; N=25). These results seem highly reasonable since the identified legal forms are de jure predestined for fundraising in Switzerland (Betzler and Brägger 2010).

Analogous to the analysis above, we further insert annual operational income as a covariate into our linear model and compare the groups of the legal forms. This now presents a slightly different picture (Appendix 2, Model 2). For public museums, which are centrally managed, F Gov III remains significant (sig. 0.026) together with F Gov II (sig. 0.040). With operational income as a covariate, the goodness-of-fit measure  $R^2$  raises by 0.197 points. Thus, when bigger public museums are part of the hierarchical public system, decisive boards that are staffed with donors seem to be relevant for the acquisition of higher amounts of fundraising income. For decentralized public depart-

ments (sig 0.028), associations (0.003), and for public foundations (sig. 0.000), only annual operational expenditure is significant. Especially for private foundations, the influence of organization size seems to matter with regard to reaching a high fundraising income. The factor 'inclusion of donor and business representative on the board' remains almost only significantly linked with fundraising income of private foundations (sig. 0.054). Within these three subgroups, the influence of the covariate operational income raises the goodness-of-fit measure  $R^2$  by 0.262, 0.209, and 0.370 points respectively.

Through these further investigations of the covariates and the subgroups split by legal form, we have shown that organization size and legal form are important factors that should be considered when developing governance models. However, it must be noted that although the small sample size needs to be considered in the subgroup analysis, these results are nonetheless still consistently interpretable.

## 5 Summary and Conclusion

Museums are complex nonprofit organizations which are often described by mixed forms of governance incorporating both public and private authorities (Schuster 1998) and which operate in multifaceted environments. The present study statistically confirms that the inclusion of donors and business representatives on boards is positively linked with fundraising income. We therefore agree with the findings of those researchers in nonprofit and museum research who stress the importance of the inclusion of donors and patrons of the arts (Oster and Goetzmann 2003; Ostrower 2002) as well as of business representatives (Anderson 2005; Griffin 2008) on museum boards. In accordance with resource dependency theory (Pfeffer 1972; Brown and Iverson 2004; Brown 2002), the composition of boards seems to matter in an important way. This is especially true for the typical non-profit legal forms of ownership of museums, namely the private association and the foundation. The active board factor includes operative management activity in fundraising, as well as steering tasks, for example, whether or not the board decides on fundraising strategies and monitors the achievement of fundraising goals. The present results show that this factor does not contribute to fundraising success in a significant way, which is contrary to what is found in NPO governance literature (Green and Griesinger 1996; Ostrower and Stone 2006). One possible museum-specific explanation as to why an active fundraising board does not lead to higher donations is offered by Griffin, who suspects that an active museum board that performs the fundraising task '[...] may not be familiar with appropriate professional fundraising strategies [...]' (Griffin 1991). Similarly, Holmes and Hatton (2008) refer to the low status of management and targeted steering in general and call for more professional-

zation of the museum organization. In order to substantiate this argument, however, more compelling evidence is needed through further research, for example, on the professionalization of museum staff and board members in fundraising management. The clear separability of the factors ‘board’s fundraising management’ and ‘inclusion of donor and business representative on the board’, which is shown statistically by the high factor loadings and thereby makes them clearly attributable (Table 4), suggests that patrons and business representatives on boards contribute by giving money and/or using their networks to attract donors, and do not generally perform operative fundraising management tasks. Further analyses could be carried out on other board groups to investigate whether their operative fundraising activity leads to a higher fundraising income.

Furthermore, we find no statistical evidence for the relevance of board-staff relationships concerning fundraising income. Therefore, it does not matter whether the board or the staff is decisive in matters concerning the gathering of private donations. In this respect, we conclude that fundraising decisions may as well be delegated to the museum staff. This applies to all museums except for those which are departments of public administration. Here, the results indicate that there is a link between fundraising income and a board active in making fundraising decisions. To practitioners, this means that public museums which are backed by their boards may succeed in achieving private funding as well.

The considerations above demonstrate that it might be useful in some cases to compare the different legal forms (Oster and Goetzmann 2003). It must be mentioned, therefore, that this study is limited by the small number of cases. Larger sample sizes would enable more representative cross-categorical comparisons. Under control of the moderator variable organization size, our results remain fairly stable. We thus confirm the importance of the organization size (Rentschler and Radbourne 2009), which has a significant influence on fundraising income yet does not affect the influence of the significant board composition factor on donations income. This is especially true in the case of private museum foundations.

In order to further confirm these initial results, more studies should be undertaken, for example, by carrying out more analyses in other sectors of the arts and nonprofit organizations. Additionally, we propose further research to identify additional variables relevant for nonprofit governance (such as strategic management and voluntary engagement), for fundraising (for example, the existence of professional fundraisers on the board or on staff), and for museums specifically (museum functions). For a closer evaluation of fundraising performance, we recommend that the Museum Association consistently collect data on fundraising income and on fundraising expenditure as well. Alternatively, information gathered by the self-assessment of the achievement of fund-

raising targets would be an indicator of the degree to which the targets have been achieved, since fundraising success is whatever museums judge it to be (Anderson 2004). Linked with the social mechanism perspective, governance research focuses on activities and entities as well as on how they are related to organizational outcomes. Because we followed a causal assumption, the multiple regression method was adequate. Thus, it must be noted that in the social mechanism debate, causality is only one possible assumption (see the critique of causality in the social mechanism debate in Hedström and Ylikoski 2010).

In summary, the results of this study emphasize the importance of board composition with regard to fundraising income. For management practice, we conclude that an effective fundraising governance of museums may be achieved through a purposeful management of the board composition, for example, through a sensitive setting of organizational arrangements (Paulus and Lejeune 2012) and a careful board composition, including donating stakeholders and business representatives.

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## Appendixes

## Appendix 1. Correlation Table

	FR in- come (log)	F Gov I	F Gov III	F Gov II	Op. exp. (log)	Legal form (class)	Public admin- cen- tral	Public admin decen- tral	Pri- vate foun- dation	Asso- cia- tion
FR-in- come (log)	1	.108	.014	.412**	.555**	-.007	.036	-.046	.180	-.077
F Gov I	.108	1	.000	.000	-.029	.099	-.199*	.096	.101	.007
F Gov III	.014	.000	1	.000	.073	.047	-.109	.174	.138	-.188
F Gov II	.412**	.000	.000	1	.226*	.193	-.044	-.141	.276**	-.119
Op. exp. (log)	.555**	-.029	.073	.226*	1	-.077	.114	.077	.117	-.243*
Legal form (class)	-.007	.099	.047	.193	-.077	1	-.697**	-.409**	.659**	.061
Public admin cen- tral	.036	-.199*	-.109	-.044	.114	-.697**	1	-.207*	-.271**	-.271**
Public admin decen- tral	-.046	.096	.174	-.141	.077	-.409**	-.207*	1	-.336**	-.336**
Pri- vate foun- dation	.180	.101	.138	.276**	.117	.659**	-.271**	-.336**	1	-.441**
Asso- cia- tion	-.077	.007	-.188	-.119	-.243*	.061	-.271**	-.336**	-.441**	1

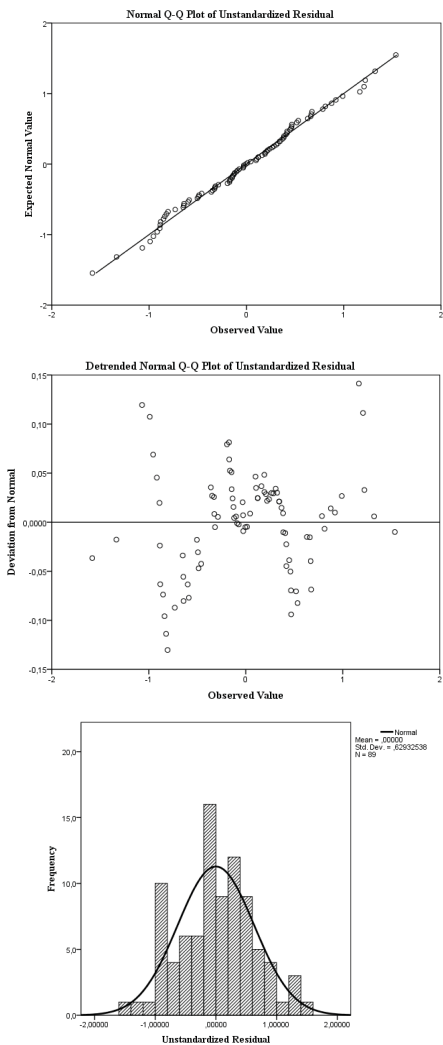
Notes: \*\* Correlation is significant at the 0.01 level (Pearson, 2-tailed); \*. Correlation is significant at the 0.05 level (2-tailed), N=89.

## Appendix 2. Subgroup Analysis Legal Forms

		Model 1		Model 2	
Legal form museum management (class.)		Stand. Coeff. Beta	Sig.	Stand. Coeff. Beta	Sig.
<b>1.00 Public administration, centralized (N=14)</b>	Board's fundraising management activity (F Gov I)	.213	.510	.008	.978
	Board as symbolic decision maker (F Gov III)	-.677	.038*	-.641	.026*
	Inclusion of donor and business repres. on board (F Gov II)	.452	.119	.550	.040*
	Operational expenditure in 2009 (log)			.466	.053
<b>R square</b>		<b>.305</b>		<b>.502</b>	
<b>2.00 Public administration, decentralized (public corporation/foundation; N=17)</b>	Board's fundraising management activity (F Gov I)	-.270	.347	.008	.975
	Board as symbolic decision maker (F Gov III)	-.202	.480	.002	.994
	Inclusion of donor and business representatives on board (F Gov II)	.062	.820	-.010	.966
	Operational expenditure in 2009 (log)			.636	.028*
<b>R square</b>		<b>-.124</b>		<b>.199</b>	
<b>3.00 Association (N=29)</b>	Board's fundraising management activity (F Gov I)	.250	.143	.155	.288
	Board as symbolic decision maker (F Gov III)	.185	.283	.062	.676
	Inclusion of donor and business repres. on board (F Gov II)	.554	.003**	.291	.083
	Operational expenditure in 2009 (log)			.533	.003**
<b>R square</b>		<b>.273</b>		<b>.482</b>	
<b>4.00 Private Foundation (N=25)</b>	Board's fundraising management activity (F Gov I)	.058	.772	.272	.100
	Board as symbolic decision maker (F Gov III)	-.146	.479	-.077	.620
	Inclusion of donor and business repres. on board (F Gov II)	.516	.015*	.315	.054
	Operational expenditure in 2009 (log)			.657	.000**
<b>R square</b>		<b>.146</b>		<b>.519</b>	

Notes: Multiple linear regression with fundraising income (log) in 2009 (in CHF) as dependent variable. F Gov I, F Gov II, F Gov III as independent. Operational expenditure in 2009 (log) as control variable. Models 1 and 2, \* significant on a p<0.05 level, \*\* significant on a p<0.01 level.

### Appendix 3. Residual Analysis



Notes: Figure 2a-c: (a) Residual analysis, (b) Q-Q-plot of the residuals, (c) histogram of the residuals with adjusted normal distribution.

# Study 3: Professionalism and Rationalization in Fundraising Management: A Contingency View of Fundraising Capability

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## Abstract

*This paper presents the construction of a new measure of fundraising capability, developed by recourse to existing theoretical concepts of professionalism and organizational rationalization. Empirical application results from the quantitative analysis of 238 Swiss nonprofit organizations, where an index of the involvement of fundraising professionals as well as an index of rationalization in the fundraising organization is developed and then combined to form the measure of fundraising capability. Hierarchical, multiple linear regression analysis shows significant relationships between contingency variables of organization size, fundraising department size, voluntary engagement, growth strategy, board activity, and board composition.*

**Keywords:** organizational capability, rationalization, professionalization, fundraising management, board governance, voluntary engagement, sociology of professionalism, organization theory

## 1 Introduction

Although the professionalization of fundraising management in nonprofit organizations (NPOs) is progressing and major international organizations as well as smaller NPOs are increasingly developing their internal fundraising capabilities, the constructs used in nonprofit research to describe and analyze this development have not yet been fully clarified. The proposed index of 'fundraising capability' presented here aims to amend this deficit. This index is a measure of the ability and capacity of an organization to raise money through the management of people and processes (for a definition of organizational capability, see Ulrich and Lake 1990), and thus combines the involvement of professional fundraisers and the rationalization of the fundraising organization.

During the last decade, organizations that collect donations have invested more and more in trained, professional staff members (Mesch and Rooney 2008; Tempel 1999; Bloland and Tempel 2004), and have developed rationalized organizational structures (Hanson 1997). In addressing the topics of the professionalization of fundraising staff and the rationalization of organization structures, one can refer to the remarkable general foundation available in organizational sociology and management science (Evetts 2009, 2003). The discussion can be traced back to Max Weber, who described voca-

tional professionalization and a rationalized organization as part of an ideal model of bureaucracy (Weber 1947).

The relationship between professions and a rationalized organization was extensively studied in all types of sectors by Richard Hall (Hall 1968) and others (for example Organ and Greene 1981; Engel 1970; Montagna 1968) between the 1960s and the 1980s in particular. In nonprofit research, Hwang and Powell (2009) took up this issue by analyzing the relationship of professional nonprofit managers and rationalized organization structures based on data from a random sample of 501 operating charities in the San Francisco Bay Area, USA. They found a high correlation between the deployment of professionalized staff and a rationalized organization structure. In these studies, rationalization and professionalization are considered to be separate phenomena. In contrast, we consider professionalization and rationalization to be components of organizational fundraising capability. This new factor is justified by the close theoretical linkage between the involvement of management professionals and rationalized organization structures concerning fundraising management. Based on these theoretical considerations, we furthermore confirm the statistical correlation of both factors in our study on fundraising in Swiss NPOs. Thus, the present study is a proposal on how fundraising capability can be measured based on the existing research regarding professionalization and rationalization.

We assume that fundraising capability differs in the respective NPOs. Based on considerations that are attributable to the contingency approach in institutional theory (see for example Donaldson 2001), we explore which influencing factors might explain these differences regarding fundraising capability. In this first analysis, we rely on established contingency factors from nonprofit research, such as organization size and age, voluntary engagement, strategy, board governance, and fields of activity (for a review on the use of the contingency approach in nonprofit research see Bradshaw 2009).

This research project on the construction and analysis of fundraising capability uses data from Swiss NPOs. By way of introduction, the development of the fundraising profession in Switzerland is outlined first and used as a preliminary study and introduction into the Swiss fundraising scene. Next, fundraising capability is conceptualized by showing the connection between the involvement of professional fundraisers and the rationalized fundraising organization based on professional sociological approaches and institutional theory considerations. Fundraising capability is then measured by first constructing and then combining an index of involvement of professional fundraisers and an index of rationalization of the fundraising organization. The resulting index of fundraising capability and its relationship to relevant context or contingency factors is then analyzed and discussed.

## 2 Theoretical Basis

### 2.1 Professionalism and the Nonprofit-Sector

Professionalism in the broader sense of the word refers to the development of a private or voluntary activity carried out by a profession. In fact, there has always been much discussion about a definition (for example Abbott 1988; Millerson 1964). Traditionally, and in the most general sense, professionals are individuals ‘...who derive legitimacy and authority from their formal education and claims to specialized expertise’ (Oxford Dictionary, Hwang and Powell 2009). In addition, regulatory approval procedures often decide on admission to the profession (Freidson 1994). Professional values, which are commonly manifested in self-acclaimed ethical standards of behavior, are distributed within society (Perkin 1989) and – more important for this context – within organizational fields (DiMaggio and Powell 1983). This phenomenon of mutual adaptation and imitation of action of individuals and organizations is described by DiMaggio and Powell by the term ‘normative isomorphism’. They predict this phenomenon to be true especially in the nonprofit sector, where networked interaction in organizational fields is common (DiMaggio and Powell 1983). In his early work ‘Is social work a profession’, Flexner (1915) defines first criteria of what constitutes a profession, but the most commonly used characteristics are those of Greenwood (1957), whereby he largely refers to Flexner’s ideas. According to Greenwood, a profession must first have a systematic theory, understood as a ‘fund of knowledge that has been organized into an internally consistent system’; second, a professional must have authority over the client within the professional field; third a community sanction must be established, for example by accrediting education by the associations, or a licensing system of professionals; fourth, there must be a commitment to ethical codes, formal and informal, altruistic and dedicated to high performance; and finally, a professional culture, like educational and research centers, associations, cliques with their values, norms and symbols, must be developed (Greenwood 1957).

The concept of professionalism should be understood as a process (Greenwood 1957; Flexner 1915; Vollmer and Mills 1966; Wilensky 1964), whereas the evolution of the ‘professional altruist’, or, what is referred to today as the nonprofit manager, was first described by Lubove (1965). Caplow (1966) compiled five sequential stages of development which were common among emerging professions such as journalists, realtors, morticians, and medical technologists. The five stages are: (1) establishment of a professional association, (2) change of name to distance it from its amateur beginnings, (3) development of a code of ethics with non-professional roots, (4) political mobilization to seek the support of the ‘public’, and (5) development of training facilities and

other institutional support. We use the criteria and development steps mentioned here to describe the professionalization process of fundraisers in Switzerland (see subsequent section).

A key issue in the sociological debate on professionalism is the question of the professional status within society; that is, what occupational activity shall be referred to as a 'profession' and what position shall it have in the social hierarchy. Old professions such as doctors and lawyers meet the normative indicators of the classical concepts related to professionalism (see above) and are at the top of the social hierarchy. The classification of other professions such as teachers, nurses, and social workers has been highly controversial (Carr-Saunders and Wilson 1933). For example, in 1915 Abraham Flexner described social work as being less than a profession at that time. He perceived the social worker as merely a mediator between professions; the field of social work was not clearly defined but rather very wide, and a social workers competencies were not highly specialized (Flexner 1915). Carr-Saunders and Wilson (1933) developed a five-step classification hierarchy of the status of professions: from old-established profession, to new profession, to semi-profession, to would-be-profession and to marginal profession. Since Wilson, many other authors have further developed this occupational prestige hierarchy (North and Hatt 1947; Hodge, Siegel, and Rossi 1964; Nakao and Treas 1994). In particular, the term semi-profession was taken up by Etzioni (1969) later on. It is argued here that not all professional activities and developments fully meet the traditional criteria of a profession (Etzioni 1969; Toren 1972), and might never be able to meet them at all. Accordingly, Chatterjee and Stevenson (2008) categorized the nonprofit-manager as a semi-professional. They developed a list of criteria for an ideal profession and compared it with the empirical status of the development of nonprofit management by using the method of participant observation of one university-based program. They concluded that 'nonprofit management' has become an identifiable profession, but its professional status and prestige remains that of a semi-profession (Chatterjee and Stevenson 2008).

Professionals influence the nonprofit organization primarily through being employed as paid (Majone 1984) and qualified staff (Hwang and Powell 2009). In Switzerland, 4.5 percent of total employment is in the nonprofit sector, which is equivalent to 180,500 full-time employees. Compared internationally, Switzerland ranks above the mean, which puts it at a similar level to Germany (4.9 percent), but far under the US with 7.8 percent in 1999 (Helmig *et al.* 2011).<sup>1</sup> In addition, NPOs are also influenced by external consultants and experts who provide services on a contract basis (Majone 1984). According to Suddaby and Greenwood (2001), a consultant's main function is to

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<sup>1</sup> According to the US Employment Report, nonprofit employment has risen to 10.1 percent of the US's total private employment (Salamon, Sokolowski, and Geller 2012).



convert managerial knowledge into 'useable and saleable form'. It is thus a motor for professionalization, especially since we perceive fundraising management as a profession of expert nature, predestined for consultative support (Reed 1996). Hiring consultants for problem-solving has since become common practice in nonprofit-organizations (Suárez 2011). Marudas and Jacobs (2010) determined that the US nonprofit management organization's use of professional fundraising services does indeed increase fundraising effectiveness.

In the nonprofit sector, the concept of professionalism is also challenged by the special characteristics of voluntary engagement. For example, in Switzerland, 31 percent of the workforce in nonprofit-organizations is voluntary (Helmig *et al.* 2011). Some authors state that in nonprofit-organizations, the development towards professionalism has led to a greater distinction between paid staff and volunteers (Kreutzer and Jäger 2011; Hwang and Powell 2009): 'Those who are employees have been deemed more professional, while those who are volunteers are well-intentioned amateurs' (Hwang and Powell 2009). This attitude implies that volunteers are not seen as professionals but as amateurs and some studies underpin this (Howlett and Rochester 2007; Merrell 2000; Ganesh and McAllum 2012). Critics even see the division of the sector into two types of NPOs, the professionalized 'social enterprise' (Dart 2004) with paid and qualified nonprofit-managers on the one hand, and the grass-roots, advocacy-oriented groups with strong connections to communities (Milligan and Fyfe 2005) on the other hand. Furthermore, professionals affect the NPO not only through paid employment but also through unpaid participation on the governing board. More and more, serving on the board is not seen as merely amateur, volunteer work but rather as a specialized form of nonprofit management in order to realize an organization's goals (Brown and Iverson 2004). The importance of professionals as board members has become undeniable. In a study on 473 nonprofit New York State organizations which collect donations, Callen *et al.* (2010) found that the largest category of board composition (37 percent) is made up of representatives with 'useful professional skills', that is, professionals who volunteer their skills to a NPO through their engagement on a board of trustees. With a share of 35 percent, the group of professionals is represented in the fund-raising committees (Callen, Klein, and Tinkelman 2010).

## **2.2 The Development of the Professionalized Fundraiser in Switzerland**

While in the United States, 'Fundraising is becoming a recognized profession, with guided entry, formal standards, ethical codes, and research to better develop and inform its constituents' (Levy 2004), in Switzerland, the professionalization process started later. By way of introduction to the Swiss situation and without raising a claim to the

completeness of the field research outlined here, we use the above mentioned criteria and development steps to briefly describe the professionalization process of Swiss fundraisers, while bearing in mind the major developments in the United States.

In the US, the National Society of Fund Raisers (NSFR) was officially chartered by the state of New York on June 21, 1960. Today it is called the Association of Fundraising Professionals (AFP), totaling thirty-thousand members in 2010 (Annual Report 2010). Thirty-four years later, on 31 May 1994, fundraising professionals assembled in Bern, the capital of Switzerland, to establish the Swiss Society of Fundraising Professionals (Schweizerische Gesellschaft der Fundraising-Fachleute, SGFF). Soon after, in 1995, it was renamed Swissfundraising, the Associations of Fundraisers in Switzerland, to distance itself from its non-professional roots (Table 1). Today, it includes 463 members (current state of December 2013), which is quite a large number considering the small size of the country and the recent trend towards professionalization. Swissfundraising organizes basic training courses, regional meetings, and conferences; it offers media partnerships and collaborates with the German magazine 'Fundraiser'. The organization also maintains a professional register to strengthen the legitimacy of the fundraising profession and has a code of ethics for their members (Table 1), which was developed in 2010.

The Swiss certification body for nonprofit, donation-collecting organizations (ZEWO) has also contributed much to the development of standards and ethical guidelines. The ZEWO was founded as an association in 1934 to serve as an information center for fundraising practitioners and a few years later, it funded a seal which is awarded to organizations that meet certain governance standards. Since 2001, the ZEWO has been an independent foundation. The ZEWO seal honors trusted charities and is awarded to NPOs after an inspection has been passed. Once awarded, regular inspections are conducted by the ZEWO to ensure the conscientious use of the resources entrusted to the organizations. The quality seal contains a comprehensive set of ethical norms to which the members are committed. The norms stand for: a dedicated, efficient and effective use of resources; the provision of clear information and meaningful accounting; independent and appropriate control structures; and open communication and fair funding. In 2011, 496 NPOs, representing two-thirds of the total Swiss donation market, were approved and are entitled to bear the seal. Compliance with the ethical guidelines is monitored closely by ZEWO. Just recently, the ZEWO threatened to withdraw the seal awarded to an organization if its Federal Councilor's excessive salary for her fundraising commitment was not cut (Table 1).<sup>2</sup>

There has been no political movement for recognition of the fundraising profession in the public thus far. On the contrary, for example, the need for fundraising at univer-

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<sup>2</sup> NZZ, 17th of March 2012.

sities is publicly criticized. In general, however, fundraising entered the field of NPOs in Switzerland without much discussion as it had already been known about from the United States. In the profession's regulatory system, the role of the fundraising manager is on its way to becoming established. For example, it is already listed as an employment field in the Swiss regional employment agencies. However, in the official directory of professions of the Swiss Federal Office for Professional Education and Technology (BBT), the fundraising profession is not mentioned and is not expected to be recognized as an official profession in the near future. Swissfundraising seeks to strengthen a development towards greater professional legitimacy through the provision of an independent professional register (Table 1).

In Switzerland, fundraising education started in the mid-nineties, which is ten years later than in the United States (Chobot 2004; Billis 2005). A conference on fundraising held at the Fribourg University in 1992 was the catalyst for the certificate or diploma courses in fundraising offered since 1995 at the Institute of Association, Foundation and Cooperative Management (VMI). Since 2005, apart from an additional certificate course, a diploma course has been offered at the School of Management and Law at the Zürich School of Applied Sciences (ZHAW) in cooperation with the Swiss Fundraising Association. This course has just recently been accredited by the European Fundraising Association (EFA). Furthermore, fundraising management is a subject in almost all Bachelor's and Master's programs of nonprofit-management in Switzerland (for example University of Fribourg, University of Lausanne, Zurich University of Applied Sciences, School of Business, Basel). Additionally, several shorter courses are offered by Swissfundraising, other educational institutions, and private providers. However, as in the United States, 'there is no formal, required apprenticeship under a more experienced practitioner'. Still, in the United States as in Switzerland, 'fundraising is a second career' (Chobot 2004). As a result, fundraising education is concentrated on vocational education; there is no specific initial training or traineeship as a fundraising professional, nor are there undergraduate studies and this is likely to remain so. According to Caplow (1966), training is supplemented by literature and research. In the United States, a tremendous volume of scientific articles and practical guide books has emerged. 'This body of learning provides validation of the professionalization that is occurring in the field.' (Levy 2004). In Switzerland as well, more and more literature and reports are provided for fundraisers. In recent years, some fundraising books for practitioners have been published (for example Buss 2012; Purtschert, Beccarelli, and Notter 2006) as well as some Swiss University research reports (for example Betzler and Aschwanden 2011). The ZEW publishes regular reports on the market, efficiency and income of fundraising, and cooperates on projects with the German magazine 'Fundraiser', which has a circulation of 5,000 (Table 1).

Criteria	Development in Switzerland
(1) Establishment of a professional association	– Swissfundraising, established in 1995
(2) Change of name to distance it from its non-professional roots	– Use of the American word ‘fundraising’, instead of the formerly used German term ‘Mittelbeschaffung’
(3) Development of a code of ethics	– Code of Ethics by the ZEWO – Code of Ethics by Swissfundraising
(4) Political mobilization to seek the support of the “public”: A prolonged political movement	– No greater political movements – Listed as employment field in the Swiss regional employment agencies – Not listed in the directory of professions of the Swiss Federal Office for Professional Education and Technology (BBT) – Swissfundraising holds a professional register
(5) Development of training facilities and other institutional supports	– Since 1995, certificate or diploma courses at the Institute of Association, Foundation and Cooperative Management (VMI) at the University of Fribourg. Since 2010 a certificate course – Since 2002 a diploma course at Zurich University of Applied Sciences School of Management and Law – No formal apprenticeship, no undergraduate Master’s degree – Cooperation with ‘Fundraiser’ (Journal) – Fundraising books and reports – ZEWO Report

Table 1. Assessment of Development Stages According to the Criteria of Caplow (1966)

We conclude that fundraising in Switzerland is an emerging profession which meets practically all of the criteria; however, several criteria are not fully developed. For example, fundraising is not officially recognized in the official directory of professions of the Swiss Federal Office for Professional Education and Technology (BBT). There is also no specific initial training or traineeship as a fundraising professional and there is no undergraduate degree program on offer. Furthermore, no persistent political movement for the fundraising profession has been detected (Table 1). As argued above, some of the criteria mentioned will probably never be met. Consequently, we categorize the fundraising manager as an emerging profession that exhibits an advanced but not yet completed development and has the character of semi-profession which is comparable to other professions such as the nonprofit manager (Chatterjee and Stevenson 2008) or the social worker.

The sociological concept of professionalism refers to groups of persons and describes a process of appropriation of shared knowledge and the emergence of a common professional identity. Institutional theory offers explanations as to what extent professionalism and organizational structures influence each other and lead to a professionalized, rationalized organization. In the following, we turn to an institutional

perspective and outline what is meant by 'rationalization'. Then we show why the approaches of professionalism and rationalization can be combined to form a construct that we name 'organizational capability of fundraising management'.

### **2.3 The Rationalization of the Nonprofit Organization**

The concept of rationality can be broken down into two primary components: (1) goal specificity - providing the criteria by which goals are developed and supported (Simon 1997); and (2) formalization - the design of organizational structures, processes, and work flows to facilitate the achievement of the organization's goals (Scott and Davis 2003). From this standpoint of the rational system perspective of some institutional theorists, the behavior of organizations and their participants is viewed as actions performed by purposeful and coordinated agents (Scott and Davis 2003; Schein 1992). Through specific goals and clear formalization, organizations can generate stable expectations (Simon 1997), de-personalize functions (Maclver 1947), bind and regulate activities (Moreno 1956), and enhance predictability and stability (Weber 1947).

The tendency towards rationalization is also observed in the nonprofit sector (Eikensberry and Kliver 2004; Barman 2007; Suárez 2011; Langton 1987; Lubove 1965). Lubove (1965) dates the shift to the ideal of efficiency and bureaucratization in US NPOs back to the 1920's, to what he calls the 'scientific charity'. Barman (2007) finds that quantification is practiced by UK charities and has altered over the last century. In recent years, numerous approaches that foster organizational rationalization such as total quality management, benchmarking, balanced scorecard, and outcome measurements have been tested in NPOs (Cairns *et al.* 2005; Paton 2003). Strategies to promote rationalization in nonprofit contexts include 'standard setting, monitoring and enforcement, inspection, and oversight' (Morison 2000). Numerous studies on the effects of nonprofit strategic management show the relevance of the subject (for an overview see Brown and Iverson 2004). It should be noted that most of the research in this area relates to the larger NPOs. Smaller initiatives and movements seem to be more informal and less rationalized. In his analysis on social movement organizations, Edwards (1994) developed a scale that measures the degree of formalization, which is based on five dichotomous indicators (has board committee, has federal tax status, develops formalized annual budget, has paid staff, has incorporated group). As a result, he concluded that the peace movement is dominated by small local groups which are more informal.

We assume that rationalization has permeated the entire nonprofit organization up to the mostly voluntary governing board. For example, Herman and Renz (1998) found a relationship between boards with higher 'social-prestige' and 'practitioner-identified' correct management procedures. Hodge and Piccolo (2005) have empirical evidence

that CEO's of privately funded agencies tend to use more board involvement techniques than CEO's of agencies funded by government grants or commercial activity. Brown and Iverson (2004) found a significant relationship of strategic orientation and board structure. Especially in the area of fundraising management, tendencies towards bureaucratization and rationalization seem to prevail, as argued by Clemens (2006).

## **2.4 Fundraising Capability: The Professionalization of the Rationalized Fundraising Organization**

Professionalism and rationalization are often considered separate phenomenon, mainly in US American studies. Since the 70's, the relationship between these two phenomena has been analyzed in numerous studies carried out in both the public and private sectors (for example Organ and Greene 1981; Engel 1970; Montagna 1968). Just a few years ago, the research topic came up in nonprofit research (Hwang and Powell 2009). With data on a random sample of 501 operating charities in the San Francisco Bay Area, Hwang and Powell (2009) show a positive, statistically significant relationship between charities that operate with professionals and their level of rationalization. The study shows that nonprofit-management professionals seem to be more likely to work in rationalized organizations. This result immediately seems obvious, but how can this relationship be explained in theory?

Certainly the case can be made '[...] that powerful professionals have often been resistant to managerial intervention and organizational controls' (Evetts 2011). It seems that the '[...] bureaucratic organization is assumed to be antithetical to the freedom of activity traditionally imputed to the professional' (Freidson 1994). Occupations often find themselves in profound conflict if their value systems contradict those of a rationalized organization. For example, in arts and cultural organizations, strong resistance to all forms of formalization on the part of the artist is found, as rationalization breaches the norm of artistic autonomy and threatens to curb creativity. As well, in the health care sector, there are physicians who stand up for the rights of the patient to have individual patient care, and who act against the administrative fee case. As a result of this friction between professionalism and organizational rationalization, '[...] hybrid forms of organizations [...] develop, [...] that deviate from the bureaucratic model in order to accommodate their professionals' interests.' (see Goss 1961, Smigel 1964, Montagna 1968, Scott 1965, in: Freidson 1994). Today, more and more professionals are employees in organizations, or at least highly dependent on them, and have lost power and autonomy (Scott and Davis 2003; Majone 1984). This development has been even more pronounced since the management profession has a greater impact on organizations (Scott and Davis 2003):

Since the article 'Business Management: A Profession' was published in the *Annals of the American Academy of Political and Social Science* in 1955, business management has been considered a new profession (Bowen 1955), and managerialism has evolved as its ethical foundation (Preston and Post 1974). The claim that the business manager is a profession was met with limited acceptance for a long time within the sociological community (Freidson 1994). Just recently, Khurana (2007) criticized the fragmented structure and content of US business schools concerning theory and ethical education, which reflects the diminishing degree of professionalism in management professions. In fact, seen from the perspective of institutionalism, managerialism as the ethical foundation of business management has however permeated the whole organization and led to increased bureaucratization and rationalization (Chandler 1977). Hanlon argues that even the definition of professionalism has been affected by business management, and he describes a form of management-influenced professionalism which he names 'commercialized professionalism' (Hanlon 1998, 2004). This version of professionalism stresses the need to have managerial and entrepreneurial skills in addition to technical ability (Hanlon 1998). Evetts (2011), by contrast, claims that the discourse of professionalism had been adopted to be used as an instrument of managerial control, in order to rationalize, re-organize, contain, and control the work and the practitioners (Evetts 2011). She names this phenomenon 'organizational professionalism' (Evetts 2010). Thus, there seems to be a connection between the management profession and the rationalization of an organization. This can also be observed in the nonprofit sector, where Lubove (1965) attested to the development of professional subcultures in NPOs. Drivers of rationalization are the increased requirements of stakeholders (Edwards 1994), especially the state (Majone 1984), but also the pressure 'to be business-like', imposed by the professional nonprofit management community (Cairns *et al.* 2005).

We argue that professionalism and rationalization are not independent, but interdependent and mutually reinforcing. Professions as collective actors affect institutional environments profoundly; they '[...] exercise enormous influence on cultural-cognitive, normative, and regulative systems, collectively creating and warranting these systems of knowledge and control' (Scott and Davis 2003). For instance, researchers stress cultural-cognitive systems and exercise 'cultural authority' (Starr 1982), whereas legal experts and managerial professionals influence regulatory bodies. Vice versa, 'organizational principles, strategies and methods are deeply affecting most professional occupations and expert groups, transforming their identities, structures and practices' (Evetts 2010). We conclude that a classification of the organizational capability of fundraising management within a nonprofit organization comprises a *combination* of elements from the concept of professionalism, *and* from the concept of rationalization. Due to the theoretical link made in the previous section, we suspect a significant statistical

relationship between organizational rationalization in the area of fundraising and the involvement of professional fundraisers. This basic assumption, among others, will be tested in the following quantitative analyses of data of Swiss nonprofit organizations.

### 3 Methods

First, in line with our theoretical considerations, two formative indexes are developed: One reflects the intensity of the involvement of professional fundraisers (Index 1) and one reflects the degree of rationalization of the organization in the area of fundraising (Index 2). Second, the relationship of these two indexes is tested by bivariate correlation to statistically confirm the relationship that we have theoretically derived. Third, an index which combines indexes one and two is constructed measuring the degree of organizational capability of fundraising management (Index 3). Fourth, in order to obtain external validity of the index (Diamantopoulos and Winklhofer 2001) and to characterize the behavior of fundraising capability in relation to other organization characteristics, we carry out hierarchical multiple linear regression analyses using fundraising capability as a dependent variable and relevant contingency variables like organization age and size, voluntariness, strategy, board governance, and fields of activity as independent variables. Missing values are imputed by multiple imputation methods. For the research model, see Figure 1.

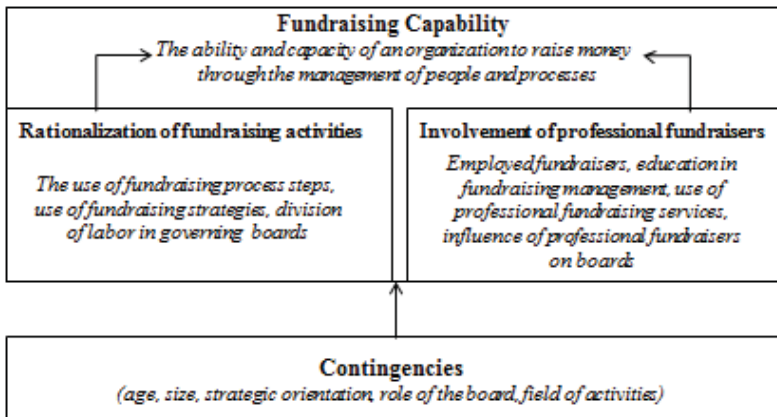


Figure 1. Research Model



## 4 Sample and Data Characteristics

The data used in this analysis is provided by the Swiss certification body for donation-collecting human service organizations (ZEWO). The data of 2010 was collected during 2011 and, in addition to general organizational data such as organization size, legal form, field of activity and employees, primarily includes information on fundraising expenses, fundraising revenue, sources of funding, and fundraising practices. A detailed survey guide and personal support ensures good data quality.

In 2010, the 238 charities recorded in the donation statistics received 850 million francs in private donations. This is approximately a little more than half of the overall estimated volume of 1.6 billion francs of the total Swiss donation market. At 41 percent, the private donations income share is higher in this dataset than the share of the revenues from the public sector contributions, which is at 35 percent. The charities own revenues equal 23 percent. The main sources of funding are small individual donations (31 percent), membership fees (20 percent), financial support from other NPOs (17 percent), and legacies (13 percent). The remaining donations income is distributed among Swiss Solidarity (a Swiss fundraising network for catastrophe aid, 5 percent), donations of public authorities (2 percent), corporate donations (3 percent), legacies and other major donations (3 percent), godparenthoods (3 percent), and others (2 percent). In contrast, 132 million Swiss francs were spent on fundraising, which is a share of 17 percent of the total expenditure.

The following is a brief look at some important characteristics of the data set. The dataset contains mixed organization sizes. 22 organizations have a total income of between one million and 149 million Swiss francs, and twelve organizations have between 31 thousand and half a million Swiss francs of total income. Most of the organizations lie between half a million and one million Swiss francs of total income. The distribution of the donation share is u-shaped, which means that there are many organizations which are financed mainly through private donations, but there are also many organizations whose donation percentage is very low. Furthermore, the data show a strong positive correlation between fundraising income and expenditure with a Pearson correlation of 0.818, which is analogous to other research on fundraising data (Marudas and Jacobs 2010; Frumkin and Kim 2001). Fundraising investment and a higher fundraising income seem to be connected unless there is no inference of a third variable. Missing data analysis shows the good quality of the data set. 58 of the 238 cases are complete, 46 of 97 variables are complete, and only 3.7 percent of the overall data is missing.

## 5 Development and Preparation of the Fundraising Capability Index

The rarely used method of formative index construction is now also found in non-profit research (for example the NPO reputation index, see Sarstedt and Schloderer 2010). Formative indexes are latent constructs that are determined as a combination of their indicators. The construction of the indexes relies on theoretical considerations with each item part of the theoretical concept and not interchangeable (Borsboom, Mellenbergh, and Heerden 2003, 2004). The specificity in the present study is that a two-layer variable is formed: In the first step, two formative indexes are developed: one reflects the intensity of the involvement of professional fundraisers (Index 1) and the other reflects the degree of rationalization of the organization's fundraising activities (Index 2; Table 2). In the second step, these two variables are combined to form fundraising capability (Index 3). In the following content specification of formative indexes 1 and 2, each item denotes a different theoretical aspect (Jarvis, Mackenzie, and Podsakoff 2003; Coltman *et al.* 2008).

### 5.1 Index 1: Involvement of Professional Fundraisers (Professionalization)

To measure the involvement of professional fundraisers, we choose the following continuous indicators, based on our theoretical considerations (see this chapter, section 2.1): (1) First, the share of paid fundraisers to all voluntary and paid fundraising activities, in full time equivalent. Here, we conclude with some authors (Flexner 1915; Greenwood 1957; Chatterjee and Stevenson 2008; Hwang and Powell 2009) that professionals influence the NPO primarily through being employed as paid staff (SubProf 1). (2) Second, the share of paid fundraisers to the total number of paid staff in the organization, in full-time equivalent. This indicator shows the importance the organization attaches to having fundraising staff (SubProf 2). (3) Third, the share of qualified fundraisers to paid fundraisers because professionals are identified primarily by a specific qualification (Flexner 1915; Greenwood 1957; Chatterjee and Stevenson 2008; Hwang and Powell 2009) (SubProf 3). (4) Fourth, the estimated influence of external experts such as consultants and other professional fundraisers since professional influence is also affected by the involvement of external consultants (Majone 1984; Suárez 2011; Marudas and Jacobs 2010). In contrast to the previous indicators, this indicator is categorized on a four-point scale (SubProf 4). In addition to their paid employment, professionals also affect the NPO through their participation as external consultants and experts on a contract basis (Suddaby and Greenwood 2001). (5) Fifth, the estimated influence of professional fundraisers on governing boards. This indicator is also categorized on a four-point scale (SubProf 5; Table 2). As already mentioned in our theoretical considerations, in addition to their paid employment, professionals also affect the NPO

through their participation on the executive board (Callen, Klein, and Tinkelman 2010; Table 2).

Index 1 is constructed as described below (see this section, below Table 2). Table 3 lists some descriptive values of each sub-index. Our dataset shows that fundraisers are primarily employed as paid staff (SubProf 1) with the lower quartile limit at 0.89 and the mean at 0.85 (note: on a scale from zero to one). In contrast, the share of fundraisers in the overall organization is quite small (SubProf 2) with the upper quartile limit at only 0.15. The histogram of the proportion of qualified to unqualified fundraisers (SubProf 3) is u-shaped. While there are many organizations in which all fundraisers are qualified, there are also many organizations in which the employed fundraisers have no specific fundraising qualifications at all. Sub-indexes four and five show few cases on the upper scale of points. Consequently, fundraising experts are not intensively involved, neither as consultants nor on the governing boards. The z-test of normal distribution<sup>3</sup> of index 1 confirms a normal distribution. Mean and median are close to each other (mean = 5.00; median = 4.91). The minimum is 2.62 and the maximum is 7.54 (Table 3).

## **5.2 Index 2: Rationalization of the Organization's Fundraising Activities (Rationalization)**

In line with our theoretical considerations, index 2 is constructed by three indicators which we choose from the dataset. First, we refer to the aspect of process-orientation (Scott and Davis 2003): We total all fundraising process steps that were queried in a variable set. Here, we ask whether a donation market analysis is made, whether an analysis of donor strain is realized, whether a fundraising concept is developed, whether a systematic controlling of fundraising activities is carried out, whether various options before implementing an action are analyzed, whether the level of awareness of the organization is measured, and whether thorough donor care is implemented. Hence, this indicator shows the degree of implementation of a fundraising process design (SubRat 1). Second, we refer to the strategic aspect of rationalization (Scott and Davis 2003). Here, we total items that are queried in a dataset measuring the intensity of the use of strategic management tools in the organization's fundraising activities. We ask whether the organizations follow certain strategies and implement certain strategic tools at all (SubRat 2). Third, we use a single item which shows whether a division of labor (Weber

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<sup>3</sup> The test of normal distribution we use is: skewness by standard error of skewness, and kurtosis by standard error of kurtosis. Normal distribution is given if both tests lie in the interval between 1.96 and - 1.96.

1947; Scott and Davis 2003) exists in the governing board regarding the fundraising tasks. This variable is categorized on a four-point scale (SubRat 3; Table 2).

Index 2 is constructed as described below (see this section, below Table 3). The data on the first sub-index, which measures the degree of process-orientation, is regularly distributed across the scale. At the scale value zero, however, an accumulation of 13 organizations can be observed (SubRat 1). Thus, some organizations have no process orientation in fundraising management at all. In contrast, 17 organizations have implemented all seven investigated process steps. The data on the intensity of strategic management (SubRat 2) shows almost a normal distribution. The organizations interviewed mostly implement only a few strategic orientations and tools. As for the division of labor on the boards (SubRat 3), it can be concluded that for many organizations, division of labor does not exist (68 organizations out of 156). The remaining organizations are roughly evenly distributed (see Table 3). The z-test of normal distribution of index 2 confirms a normal distribution. Mean and median are close to each other and have a defined mean value of 5.00 and a median of 5.02. In comparison with index 1, the range is slightly smaller with values between 2.84 and 7.23 (see Table 3).

<b>Sub-Indexes</b>	<b>Variable Description and Measurement</b>	<b>Reference to Theory</b>
Sub-Prof 1	Relative number of paid fundraisers  Share of number of paid fundraisers to number of all voluntary and paid fundraisers, continuous variable	(Flexner 1915; Greenwood 1957; Chatterjee and Stevenson 2008; Hwang and Powell 2009)
Sub-Prof 2	Relative size of fundraising staff  Share of paid fundraisers to the total of paid staff in the organization, continuous variable	This indicator shows the importance the organization attaches to employ fundraising staff.
Sub-Prof 3	Relative number of qualified fundraisers  Share of qualified to paid fundraisers, continuous variable	(Flexner 1915; Greenwood 1957; Chatterjee and Stevenson 2008; Hwang and Powell 2009)
Sub-Prof 4	Importance of experts  - 'External consultants or experts have a significant influence on our strategic fundraising activities.'  Four-point scale: Untrue = 0, somewhat untrue = 1, somewhat true = 2, true = 3, categorical variable	(Majone 1984; Suárez 2011; Marudas and Jacobs 2010)

(Continuation)

Sub-Prof 5	Importance of professional fundraisers on governing boards - 'One of the members of the committee or board of trustees is a fundraising expert or consultant'	(Callen, Klein, and Tinkelman 2010)
	Four-point scale: No = 0, in planning = 1, in development = 2, yes = 3, categorical variable	
Sub-Rat 1	Degree of implementation of fundraising process design Total of fundraising management process steps: <ul style="list-style-type: none"> <li>- 'Analysis of donation market, potential analysis'</li> <li>- 'Analysis of own donor pool'</li> <li>- 'Development of a specific fundraising strategy/concept'</li> <li>- 'Systematic controlling of individual fundraising activities'</li> <li>- 'Tests, evaluation of different possibilities prior to implementing a campaign'</li> <li>- 'Measuring how well the organization is known to the public'</li> <li>- 'Increased, personal donor care'</li> </ul>	(Scott and Davis 2003)
	Four-point scale: No = 0, in planning = 1, in development = 2, yes = 3, categorical variable	
Sub-Rat 2	Degree to which organization follows certain strategies and implements certain strategic tools. Total of use of strategic management tools: <ul style="list-style-type: none"> <li>- 'We aim to significantly increase our total fundraising revenue'.</li> <li>- 'In our efforts to win new donors, we only aim to replace the donors we have lost'.</li> <li>- 'We invest in fundraising until each new franc we invest generates more revenue than the previously invested franc (maximum marginal utility)'.</li> <li>- 'Our fundraising activities are based on a fixed budget and we aim to generate as much revenue as possible'.</li> <li>- 'In our efforts to win new donors, we aim for a net growth which exceeds the number of donors we have lost'.</li> <li>- 'Our fundraising activities focus primarily on keeping the donors we have and improving our relationship with them'.</li> <li>- 'We consciously focus our fundraising activities on a limited number of revenue sources'.</li> <li>- 'Our fundraising activities are based on a revenue target and do as much fundraising as necessary to reach our target'.</li> <li>- 'We work hard to widen our donor mix and open up new channels of donations'.</li> </ul>	(Scott and Davis 2003)
	Four-point scale: Untrue = 0, somewhat untrue = 1, somewhat true = 2, true = 3, categorical variable	
Sub-Rat 3	Division of labor within the governing board regarding the fundraising tasks <ul style="list-style-type: none"> <li>- 'The committee or board of trustees has a subcommittee in charge of fundraising'.</li> </ul>	(Weber 1947; Scott and Davis 2003)
	Four-point scale: Untrue = 0, somewhat untrue = 1, somewhat true = 2, true = 3, categorical variable	

Table 2. Subindexes of Fundraising Capability , Variable Description and Measurement, and Reference to Theory

We assume that all items are of equal theoretical relevance. To be able to summarize the values of the subscales, the item scales need to have the same range. Therefore, we proceed as follows: First, we normalize all sub-indexes and apply the formula as follows, making sure that all variables point to the same direction:

$$\frac{\text{real value} - \text{lower limit}}{\text{upper limit} - \text{lower limit}}$$

Then, all sub-indexes are rescaled from zero to one and totaled.<sup>4</sup> The resulting index scales of professionalization and rationalization (indexes 1 and 2 see below) are standardized and centered on five so that we obtain scales ranging between zero and one (Table 3).

Indicator collinearity amongst the indicators does not seem to pose a problem. To check collinearity, we undertake linear regression analyses (Diamantopoulos and Winklhofer 2001; Coltman *et al.* 2008) with index 1 as dependent variable and the respective indicators (Appendix 1), and with index 2 as dependent variable and the respective indicators (Appendix 2). These tests show a maximum variation inflation factor (VIF) of 1.51, which is far below the common cut-off threshold of 10 (for example Kutner, Nachtsheim, and Neter 2004). The standardized beta weights show that all items contribute uniquely as a predictor and that all items have the same directionality (Appendix 1, 2). Principal component analyses with item bundles of index 1 and index 2 respectively show poor Kaiser-Meyer-Olkin measures of 0.5 (Kaiser and Rice 1974) in both cases and explain 55 percent of the variation at maximum. These results strengthen the use of the present approach of formative index engineering.

### 5.3 Index 3: Fundraising Capability

The third index is a combination of index 1 and index 2. Here, as well, we conclude deductively from theoretical assumptions on the item combination (see section ‘Fundraising Capability: The Professionalization of the Rationalized Fundraising Organization’). A combination by factor analysis is not recommended because we use an inductive-exploratory method (Coltman *et al.* 2008). In order to test the combination statistically, we first calculate the correlation of the professionalism index (index 1) and the rationalization index (index 2). Bivariate Pearson correlation shows a significant correlation of 0.522 and the two-tailed test is significant at the 0.01 level. Thus, our theoretical argument that the involvement of professionals coincides with a rationalized fundraising organization is likely.

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<sup>4</sup> Sub-indexes of formative indicators do not need to be equally distributed (Diamantopoulos and Winklhofer 2001). The theoretical construct of fundraising capability expressed by a formative indicator does not anticipate that the isolated items are all significantly linked to the organization success (Jarvis, Mackenzie, and Podsakoff 2003). Therefore, these influences are not tested.

We use the following equation to construct the index of fundraising capability (index 3), where  $i$  denotes the organization:

$$index\ 3_i = \sqrt{index\ 1_i \times index\ 2_i} \text{ (Formula 1).}$$

By calculating the product, we assume a limited substitutability between both indexes. Fundraising capability is zero if at least one of the indexes is zero. This assumption reflects our theoretical considerations: The involvement of professionals implies a certain degree of rationalized fundraising organization, and rationalization is not realizable without any professionalization. We then take the geometric mean by calculating the square root (Formula 1). Analogous to indexes 1 and 2, the scale is then standardized and centered on five so that a scale range between zero and ten is obtained. As indexes 1 and 2 are normally distributed, index 3 is expected to be normally distributed as well. The z-test of normal distribution of index 3 confirms a normal distribution. The median ranges around 5.02 with a defined mean of 5.00. The minimum value is 2.76 and the maximum value is 7.48 (Table 3).

		In- dex 1 Prof	In- dex 2 Rat	In- dex 3 Cap	Sub Prof 1	Sub Prof 2	Sub Prof 3	Sub Prof 4	Sub Prof 5	Sub Rat 1	Sub Rat 2	Sub Rat 3
<b>N</b>	<b>Valid</b>	166	215	159	220	213	181	231	230	230	218	230
<b>Mean</b>		5.00	5.00	5.00	0.85	0.12	0.29	0.26	0.18	0.49	0.52	0.38
<b>Median</b>		4.91	5.02	5.02	0.96	0.05	0.00	0.33	0.00	0.52	0.54	0.33
<b>Skewness</b>		0.13	-0.18	0.11	-2.32	2.34	0.87	0.910	1.66	-0.02	-0.64	0.48
<b>Std. Error of Skewness</b>		0.19	0.17	0.20	0.16	0.17	0.18	0.17	0.16	0.16	0.17	0.16
<b>Kurtosis</b>		-0.47	-0.48	-0.38	3.88	6.45	-0.75	0.12	1.56	-1.03	1.07	-1.34
<b>Std. Error of Kurtosis</b>		0.38	0.33	0.38	0.32	0.33	0.36	0.32	0.32	0.32	0.32	0.32
<b>Minimum</b>		2.62	2.84	2.76	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Maximum</b>		7.54	7.23	7.48	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Percen- tiles</b>	<b>25</b>	4.31	4.37	4.33	0.89	0.01	0.00	0.00	0.00	0.27	0.42	0.00
	<b>50</b>	4.91	5.02	5.03	0.96	0.05	0.00	0.33	0.00	0.52	0.53	0.33
	<b>75</b>	5.80	5.79	5.58	1.00	0.15	0.59	0.33	0.33	0.71	0.61	0.67

Table 3. Mean, Median, Skewness, Kurtosis, Minimum and Maximum of Indexes and Sub-indexes

It is a challenge to empirically check the validity of a formative factor such as fundraising capability; 'so far, one of the key operational issues in the use of formative indi-

cators is that no simple, easy and universally accepted criteria exists for assessing the reliability of formative indicators' (Coltman *et al.* 2008). The best that can be done is to check how the index is linked to other relevant organizational variables (Bagozi 1994, cited in Diamantopoulos and Winklhofer 2001). Theoretically sound hypotheses on the expected nature of the linkages strengthen this procedure. To check the plausibility of the fundraising capability index, the contingency-approach is chosen.

## 6 Contingency Variables

The contingency approach subsumes that organizational structures and characteristics fit differently to the situations which they are in (Donaldson 2001). Thus, we subsume that fundraising capability is particularly prevalent only in certain organizations. Therefore, we ask the question as to what organizational factors outside fundraising activities relevant in nonprofit research may explain differences in fundraising capability? We choose variables which are established in nonprofit management and form hypotheses (for an overview see Table 4). These contingency variables are bundled into four variable sets: general organizational characteristics, strategic orientation, role of the governing board, and field of activity. For variable description and measurement as well as reference to theory see Appendix 3. For descriptive data on the respective independent variables see Appendix 4.

### 6.1 Organizational Age and Size, and Volunteerism

The first variable set consists of general organizational variables relevant for NPOs. We suspect that the predictor set of general organization data has a significant impact on fundraising capability (Hypothesis 1; Table 4). The first contingency variable in this variable set is organizational age (Appendix 3), which is identified by many authors in nonprofit research (Herman and Renz 1998; Okten and Weisbrod 2000; Tinkelman 2004). Existing research does not give us much information about the influence of organization age. For example, in an analysis on US NPOs, Crittenden and Crittenden (2000) find a positive link between organizational age and a NPO's strategic planning process. Hwang and Powell (2009) found a negative relationship of rationalization and organizational age and suspect that newly formed organizations are more likely to introduce new management methods. However, the variable loses its influence when the covariate professionalization is included in the model, which leaves this example open regarding a prediction on possible effects on fundraising capability. Since an older organization has more time for development, we formulate the logical argument that the older an organization, the higher its fundraising capability (Hypothesis 1.1). Apart from



organizational age, organizational size has become a well-established contingency variable (Cornforth and Simpson 2002), here measured by the total income (Appendix 3). Hwang and Powell (2009) find that organizational size is positively related to organizational rationalization. The beta coefficient drops when the professionalization index is inserted, but we expect that the fundraising capability variable is strong enough to withstand this moderation. Thus, we hypothesize that bigger organizations with more resources have more capacity to build up fundraising capability, or: The higher the fundraising income, the higher the fundraising capability (Hypothesis 1.2). We further choose the share of fundraising expenses to total expenses in order to investigate the size of the fundraising department or activities (Appendix 3). Interestingly, we find almost no correlation of this predictor to total income. We thus conclude that not only the size of the entire organization might be crucial, but also how much the NPO concentrates on collecting private donations. Along with the previous hypothesis, we suggest that the larger the fundraising department, the more fundraising capability is prevalent (Hypothesis 1.3). Additionally, we choose the share of volunteers to total workers in full-time equivalent (FTE), which reflects the degree of voluntary organization. Here, we analyze whether the voluntary or non-voluntary character of the whole organization is related to fundraising capability. The variable is classified into three equal groups and the extremely low occurrences (group one) are listed (Appendix 3). Some authors state that in NPOs, the development towards professionalism has led to the delineation of the paid staff and the volunteers (Kreutzer and Jäger 2011; Hwang and Powell 2009). Hence, we suspect a positive relationship between a low degree of voluntariness and fundraising capability (Hypothesis 1.4, Table 4).

## **6.2 Strategic Orientation**

Scientific literature confirms that strategic management has become an established influencing factor in nonprofit management (Stone, Hager, and Griffin 1999; Brown and Iverson 2004). The second variable set consists of the organization's strategic orientation in fundraising matters (Appendix 3). We expect that strategic orientation plays a significant role with respect to fundraising capability (Hypothesis 2). In the present study, we use two factors to indicate growth strategy and consolidation strategy. The rationalization index (index 1) and consequently also the fundraising capability index (index 3) contain information as to whether it is decided strategically at all (see section 'Development and Preparation of the Fundraising Capability Index'). Here, where we analyze which strategic orientation specifically has an impact on fundraising capability. We argue that nonprofit organizations build up their fundraising capability particularly if their strategy is to expand their fundraising activities. Thus we expect that pursuing a

growth strategy is significantly positively linked to fundraising capability (Hypothesis 2.1). We further expect a negative linkage of consolidation strategy to fundraising capability as consolidation strategies tend to freeze investments; thus an increased development of fundraising capability is not expected (Hypothesis 2.2, Table 4).

### 6.3 Role of the Governing Board

The third variable set includes the role of the governing board. We hypothesize that the variables concerning the structure and behavior of the governing board play a significant role with respect to fundraising capability (Hypothesis 3, Table 4). While the indexes of professionalism and rationalization contain information on the influence of fundraising professionals on the board (Index 1) and the board's division of labor on fundraising (Index 2), we aim to analyze the relationship of three other important board governance factors mentioned in the literature:

First, we analyze whether donors are part of the board (Betzler and Gmür 2012; Brown 2002; Callen, Klein, and Tinkelman 2003; Pfeffer 1972; Appendix 3). Since there is evidence that the involvement of the donor on the board increases donations (Betzler 2013), we expect that organizations with donors on the board show a significantly higher fundraising capability (Hypothesis 3.1).

Second, the active involvement of the governing board is an important influential factor in fundraising management (Green and Griesinger 1996; Hung 1998; Cornforth 2001; Ostrower and Stone 2006; Greenfield 2009; Appendix 3). We assume that highly capable NPOs mainly work with highly professionalized staff, which performs the bulk of the work. Consequently, we expect a decline of board activity in fundraising matters and thus a negative link with fundraising capability (Hypothesis 3.2). This situation should be the case, unless the boards are not strongly populated with professionals. To verify this, and to exclude a correlation between these two independent variables, we analyze whether the active boards are generally more populated with professionals from politics, arts and business who contribute with professional skills that are useful for the respective NPOs (Callen, Klein, and Tinkelman 2010; Appendix 3). Callen *et al.* (2010) find that boards that are comprised of professionals are least represented on fundraising committees (Callen, Klein, and Tinkelman 2010). In line with this finding, we identify no correlation between both variables in our data either.

Third, we examine the relationship between the professionalized boards (as mentioned above) and fundraising capability. We suspect that highly professionalized boards are more likely to work with fundraising professionals and foster rationalization. We therefore expect that a board which is comprised of professionals from politics, arts and business also shows a significantly higher fundraising capability (Hypothesis 3.3, Table 4).

## 6.4 Field of Activity

The third variable set includes the organization's affiliation to fields of activity or submarkets, such as home, nature, social, and health, to explore the differences within the respective field of activity (Appendix 3). As differences on the grant market in terms of market competition are expected in nonprofit literature (Ashley and Faulk 2010), we also expect that the field of activity variables contribute to our model in a significant way (Hypothesis 4, Table 4). Hwang and Powell find the health field of activity is related positively to organizational rationalization, even when professionalization is inserted as covariate (Hwang and Powell 2009). Subsequently, we suspect a positive relationship of fundraising capability to health organizations as well (Hypothesis 4.1; Table 4). Due to a lack of data and findings, it is difficult to hypothesize all fields of activity; therefore, we test all available fields of activity without predictions.

## 7 Results

The general model for multiple linear regression, given  $X$  contingency variables and  $n$  observations, is for  $i = 1, 2, \dots, n$ :  $index\ 3 = \beta_0 + \beta_1 X_{1n} + \dots + \varepsilon$ .

We use the hierarchical method to additionally investigate the effect of each of the four above mentioned predictor bundles, along with the analysis of the effects of each single variable. We use fundraising capability (Index 3) as dependent variable. To obtain a sufficient case to predictor relationship, methods of multiple data imputation are employed (for the overall good data completeness, see section 'Sample and Data Characteristics'). With 238 completed cases, the case to predictor relationship is sufficient (1:17). For the imputation, we use algorithms provided by SPSS 19 of logistic and linear regression (Schafer 1997; Raghunathan *et al.* 2001; Rubin 1987) and undertake 20 imputations. Comparisons of the results of the hierarchical multiple regression model with original data ( $N = 89$ ) show only differences in the predictors 'donor on board' and 'low share of voluntary to total workers in FTE' (see Table 5 and Appendix 7). The conditions of the hierarchical multiple regression analysis are fully met. The variables are visually inspected for normal distribution and, if necessary, logarithmized. Autocorrelation can be excluded as the Durban-Watson measure lies between the accepted ranges of 1.5 to 2.5 (rule of thumb is 2) and thus tests of significance are valid. Multicollinearity is unlikely as the variance inflation factor (VIF) is consistently below four, whereas some authors recommend values below five or even ten (Kutner, Nachtsheim, and Neter 2004; O'Brien 2007). All correlations are weak to moderate, ranging from  $r = .003$  to  $r = .480$  (see Appendix 5 and 6). The scatterplots of the standardized residuals by the standardized predicted value of the 20 iterations show uniformly and randomly

distributed values; there are therefore no grounds for suspicion of heteroskedasticity (Berry and Feldman 1985).

	<b>Alternative Hypotheses (<math>H_1</math>)</b> <b>We expect...</b>	<b>Test rules</b>	<b><math>H_0</math> not re- jected (NR) or rejected (R)</b>
1	... that general organizational data has a significant impact on fundraising capability.	Two-tail alternative hypothesis $H_0: \beta_j = 0; j = 1 \dots 4$ $H_1: \text{at least one } \beta_j \neq 0$	R
1.1	... that the older an organization, the higher its fundraising capability.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	NR
1.2	... that the higher the fundraising income, the higher its fundraising capability.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	R
1.3	... the bigger the fundraising department, the stronger the fundraising capability.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	R
1.4	... low voluntariness is significantly positively related to a higher fundraising capability.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	NR
2	... that strategies play a significant role concerning fundraising capability.	Two-tail alternative hypothesis $H_0: \beta_j = 0; j = 5, 6$ $H_1: \text{at least one } \beta_j \neq 0$	R
2.1	... that pursuing a growth strategy is significantly positively linked to fundraising capability.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	R
2.2	... a negative linkage of consolidation strategy to fundraising capability.	One-tail alternative hypothesis: left $H_0: \beta_j = 0$ $H_1: \beta_j < 0$	NR
3	... that the variables concerning the structure and behavior of the governing board play a significant role with respect to fundraising capability.	Two-tail alternative hypothesis $H_0: \beta_j = 0; j = 7 \dots 9$ $H_1: \text{at least one } \beta_j \neq 0$	R
3.1	... expect that organizations with donors on the board show a significantly higher fundraising capability.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	R

(Continuation)

3.2	... a negative link of board activity in fundraising matters and fundraising capability.	One-tail alternative hypothesis: left $H_0: \beta_j = 0$ $H_1: \beta_j < 0$	R
3.3	... that a board which is comprised of professionals from politics, arts and business also shows a significantly higher fundraising capability.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	R
4	... that the field of activity variables contribute to our model in a significant way.	Two-tail alternative hypothesis $H_0: \beta_j = 0; j = 10 \dots 14$ $H_1: \text{at least one } \beta_j \neq 0$	R
4.1	... a positive relationship of fundraising capability and health organizations.	Two-tail alternative hypothesis $H_0: \beta_j = 0$ $H_1: \beta_j \neq 0$	NR R*

Table 4. Hypotheses on the Relationship of Fundraising Capability with Contingency Variables, Decision Rules, and Results

Notes: Level of significance < 0.05; \* = level of significance < 0.1

The explanatory power of the full model is acceptable and shows an adjusted R square of 0.57. The hierarchical multiple regression results can be found on Table 5. For hypotheses, testing rules and results see Table 4.

Model one with the set of organizational financial and structural variables is statistically significant  $F(4, 233) = 27.4; p < 0.05$  and explains 30.6 percent of fundraising capability. The individual predictors show the following results: Organizational age has no effect on fundraising capability and Hypothesis 2.1 could not be rejected (Table 4, 5). This result is plausible since the NPOs in Switzerland are not necessarily dependent on acquiring private donations from the outset and their fundraising activities are started a long time after the founding of the organization. In contrast, we can see that the organizational size is significantly positively linked to fundraising capability, here expressed by total income. The respective null hypothesis has to be rejected and hypothesis 2.2 is likely to be true (Table 4, 5). This result again shows the relevance of organizational size as a covariate, as other authors in nonprofit research have previously found (Cornforth and Simpson 2002). However, the relative size of the fundraising department or area, in relation to the overall organization, is also a relevant factor and positively linked to fundraising capability (Table 4, 5). The third variable in this set measures voluntariness. As mentioned above, some authors state an antithesis regarding professionalism and volunteerism (see section ‘Professionalism and the Nonprofit Sector’). Our results seem to contradict these considerations because they show a fall in fundraising capability when the number of volunteers an organization works with amounts to less than 33 percent of the overall workforce. Thus, the null hypotheses cannot be rejected. Consequently, an extremely low percentage of volunteering seems to be

counterproductive for the development of fundraising capability, a surprising finding which needs to be further discussed and investigated.

In model two, we add the strategic factors to the regression model. In the construction of the rationalization index (Index 2), whether it is decided strategically at all has already been taken into account. We are interested in which fundraising strategy is explicitly connected to fundraising capability. This model is also statistically significant  $F(2, 231) = 28.07$ ;  $p = 0.05$  and explains the additional 13 percent of variance in fundraising capability. The individual predictors show a positive relationship of growth strategy and of consolidation strategy to fundraising capability. Accordingly, we reject the null hypotheses of hypothesis 3.1 and take the alternative hypothesis to be likely true. Hypothesis 3.2 cannot be rejected. Contrary to our assumptions, consolidation strategy is also positively linked to fundraising capability, even if the impact is less than the one resulting from the growth strategy variable.

In model three, we add variables that might better explain the behavior and composition of governing boards concerning fundraising capability. Professionalization and rationalization indexes (Index 1 and 2) already include aspects of board governance regarding the involvement of professional fundraisers (SubProf 5; see section Development and Preparation of the fundraising capability index), and aspects of rationalization in the board (SubRat3). We want to explore further aspects concerning board composition, board activity, and a professionalized board in general. Results show that all three board governance variables are positively linked to fundraising capability. Therefore all alternative hypotheses formulated in this model are likely to be true: An organization with more donors on the board, with greater board activity in fundraising, and with generally more professionalized board members most probably shows higher fundraising capability. Model 3 is shown to be significant  $F(3, 228) = 21.08$ ;  $p < 0.05$  and explains the additional 12 percent of variance in fundraising capability.

	Unstand.Coeff.		t	Sig.	Unstand.Coeff.		T	Sig.	Unstand.Coeff.		t	Sig.	Unstand.Coeff.		t	Sig.
	B	Std. Error			B	Std. Error			B	Std. Error			B	Std. Error		
(Constant)	3.655	0.827	4.422	<0.001*	3.988	0.779	5.094	<0.001*	2.618	0.715	3.664	<0.001*	2.573	0.695	3.703	<0.001
AGE (ln)	-0.008	0.122	-0.063	0.95	-0.032	0.115	-0.28	0.78	2.94E-05	0.109	0	1	-0.032	0.109	-0.291	0.772
INC (ln)	0.166	0.053	3.15	0.002*	0.125	0.05	2.52	0.014*	0.164	0.047	3.455	0.001*	0.139	0.047	3.396	0.001*
FREXP (ln)	0.331	0.049	6.745	<0.001*	0.215	0.049	4.405	<0.001*	0.231	0.045	5.125	<0.001*	0.21	0.05	4.161	<0.001
LSVOL	-0.691	0.196	-3.532	<0.001*	-0.713	0.181	-3.939	<0.001*	-0.694	0.174	-3.997	<0.001*	-0.724	0.176	-4.105	<0.001*
GSTRA					0.38	0.08	4.747	<0.001*	0.279	0.075	3.727	0.000*	0.277	0.078	3.568	0.001*
CSIRA					0.187	0.074	2.507	0.014*	0.153	0.074	2.074	0.043*	0.171	0.073	2.348	0.022*
BDOX									0.197	0.084	2.351	0.021*	0.217	0.085	2.538	0.013*
BCT									0.255	0.067	3.795	0.000*	0.259	0.068	3.824	<0.001*
BPROF									0.605	0.211	2.875	0.006*	0.639	0.217	2.951	0.005*
FSOC													-0.012	0.191	-0.062	0.951
FHEA													0.282	0.15	1.875	0.062
FNAT													0.444	0.304	1.459	0.145
FHOM													-0.213	0.232	-0.914	0.362
FHUM													0.205	0.177	1.162	0.247
R (mean)																0.768
Adj. R2 (mean)																0.565
df1																5
df2																223
F Change																21.08
Sig. F Change (mean)																<0.001
																0.052

Table 5. Results of the Hierarchical Multiple Linear Regression on Imputed Data, Pooled Output  
 Notes: Model summary calculated as mean of 20 iterations, fundraising capability as dependent variable, contingency variables as independent variables, \* significant on a p<0.05 level; N = 238

In the fourth model, we examine the differences between the sub-sectors or the different nonprofit markets. Here, we find no statistical linkage to a given level of significance of  $\alpha < 0.05$ ; that is to say, the model is not significant. However, we find a significant positive relationship of fundraising capability to health organizations, such as the Red Cross, Caritas, AIDS Aid, and Cancer Aid, with a given level of significance of  $\alpha < 0.1$  (Table 5). In this regard, we confirm Hypothesis 5.1 to a certain extent.

In summary, models one, two and three show a significant F change; that is to say, the supplementary power of one model to the next is significant. We therefore conclude that organizational variables, strategic variables, and variables on board governance contribute significantly to the explanation of fundraising capability and are relevant contingency factors. Our analysis shows that in contrast the single predictor organizational age and a consideration of individual sub-markets (sub-sectors) rarely contribute to the explanation of fundraising capability.

## 8 Summary and Conclusion

This study introduces fundraising capability, which is a new management variable that measures the ability and capacity of an organization to raise money through the management of people and processes. Fundraising capability consists of the two components of fundraising management in nonprofit organizations, 'professionalization' and 'rationalization'. By referring to the sociological debate on professionalism, we first developed formative indicators for an index that measures the influence of professional fundraisers on a nonprofit organization. Based on considerations of organizational theory, we then derived indicators that measure the rationalization of fundraising activities. With this approach, we relied on existing research in the nonprofit sector (Hwang and Powell 2009; Suárez 2011). In line with Hwang and Powell, we found a correlation between the influence of professional fundraisers and the rationalization of fundraising activities. When developing the indexes, we noticed that present studies in the nonprofit sector (Hwang and Powell 2009; Suárez 2011) fall short because they do not take into consideration the nonprofit-specific role of the boards. Therefore, we further developed the existing models and considered the role of the governing boards in both the professionalization and the rationalization indexes. Above all, however, the study goes beyond all previous research on rationalization and professionalization (for example Organ and Greene 1981; Engel 1970; Montagna 1968). We did not juxtapose but rather combined the two indexes, taking into account the close theoretical relationship between professionalism in management occupations and the rationalization and bureaucratization of processes and activities.

The results of the hierarchical multiple linear regression analyses with contingency variables relevant in nonprofit research seem plausible and show some of the behavior



of fundraising capability. As expected, fundraising capability is shown to be positively related to total income, relative staff size of the fundraising department, growth strategy, donors on boards, board activity, as well as a highly professionalized governing board. Contrary to our assumptions, the fundraising capability decreases with a very low proportion of volunteers, and there is a positive relationship to consolidation strategy. Furthermore, there is no evidence of a relationship of fundraising capability to organizational age or fields of activity.

These results provide interesting insights, but also give rise to new research questions. The positive relationship of fundraising capability to organizational size as well as to the size of the fundraising department makes sense insofar as building up fundraising capability is resource-intensive and a larger organization and/or fundraising department might have higher organizational capacities and more formalized structures. In this context, it would be interesting to develop and test an econometric model of the costs of building up fundraising capability. We also find that an extremely low percentage of volunteering seems to be counterproductive for the development of fundraising capability. This indicates that volunteer forces might still play an important role. Previous research confirms that volunteers are quite strongly engaged in fundraising (Hager, Rooney, and Pollak 2002). This issue could be investigated more closely in subsequent analyses. The findings further show that fundraising capability is positively related to growth and consolidation strategy. It would now be interesting to monitor whether organizations with a growth strategy experience a rise in donations in coming years, or whether the investment into building up fundraising capability offsets this effect. Additionally, the findings of the present study show that fundraising capability is positively related to three board management variables prominent in nonprofit governance research, namely donors on the board, board active in fundraising management (Betzler and Gmür 2012) and board generally comprised of management professionals (Callen, Klein, and Tinkelman 2010). This is initial evidence that not only board activity and structure are related to organizational performance (Callen, Klein, and Tinkelman 2003; Callen, Klein, and Tinkelman 2010), but they are also related to fundraising capability.

For practitioners, the fundraising capability index might be an important clue as to how far the ability and capacity to acquire funds is developed at the organizational level, that is, a tool with which to find out the scope of fundraising. An even more detailed validation and elaboration of the sub-indexes, more repeated tests and scale adjustments would be necessary, for example, to develop a standardized monitor in which each organization could read their own level of fundraising capability. Further, assuming that the establishment of fundraising capability incurs costs, the question

might arise as to what extent building up fundraising capability is ‘worth it’ and to what extent it leads to better fundraising performances. A marginal benefit analysis might show practitioners to what extent fundraising capability must be developed.

We invite the practical and epistemic nonprofit community to further discuss the applicability of the fundraising capability measure and to carry out more case studies. We must acknowledge that in nonprofit research, there is some legitimate criticism about the trends towards building up management capabilities. For example, through a change of norms and values induced by professionalization and rationalization, a nonprofit organization’s philanthropic mission may shift towards profit orientation (Steinberg and Weisbrod 2005; Valentinov 2011) and this may reduce the intrinsic motivation of the stakeholders (Deckop and Circa 2000). On the contrary, however, other authors state that NPOs are inconceivable today without modern management (Lubove 1965; Drucker 1990). The challenge in nonprofit management will be to integrate professionalization, rationalization, and value-based, philanthropic, intrinsically motivated action to develop nonprofit-specific *and* effective organizational capabilities. Last but not least, only an integrated, nonprofit-specific management approach can lead to an increased recognition of the fundraising profession in Switzerland.

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## Appendixes

### Appendix 1. Analysis of Indicator Collinearity by Linear Regression, Index 1

	Non-standardized Coefficients	Standardized Coefficients	Collinearity Statistics	
	Regression-coefficient $\beta$	Beta	Tolerance	VIF
<b>Sub-Prof 1</b>	.200	.380	.950	1.053
<b>Sub-Prof 2</b>	.200	.253	.966	1.035
<b>Sub-Prof 3</b>	.200	.509	.901	1.110
<b>Sub-Prof 4</b>	.200	.401	.912	1.096
<b>Sub-Prof 5</b>	.200	.391	.969	1.032

*Notes:* Index 1 'involvement of professionalized fundraising staff' is dependent variable, sub-indexes are independent variables, original data

### Appendix 2. Analysis of Indicator Collinearity by Linear Regression, Index 2

	Non-standardized Coefficients	Standardized Coefficients	Collinearity Statistics	
	Regression-coefficient $\beta$	Beta	Tolerance	VIF
<b>Sub-Rat 1</b>	.333	.473	.668	1.497
<b>Sub-Rat 1</b>	.333	.275	.662	1.510
<b>Sub-Rat 1</b>	.333	.620	.956	1.046

*Notes:* Index 2 'rationalization of the fundraising organization' is dependent variable, sub-indexes are independent variables, original data

### Appendix 3. Contingency Variables; Variable Description, Measurement, and Reference to Theory

Contingency Variables	Description and Measurement	Reference to Theory
<b>AGE (ln)</b>	Organizational Age  Continuous Variable (Year of research minus foundation year)  – 'When was your organization founded?'	(Crittenden and Crittenden 2000; Hwang and Powell 2009; Herman and Renz 1998; Oken and Weisbrod 2000; Tinkelman 2004)

(Continuation)

<b>Inc (ln)</b>	Total income  Continuous Variable – ‘What was the total revenue in 2010? Please note the following: [...]’	(Cornforth and Simpson 2002, Hwang and Powell 2009)																																						
<b>FR exp (ln)</b>	Share of fundraising expenses to total expenses (ln)  Continuous Variable (total income to total expenses) Fundraising expenses: Sum of (see below), in Swiss francs – ‘Staff of head office’ – ‘Total staff at the place of performance’ – ‘General and administrative expenses (room expenses, fundraising, in-house information, travel, asset management, accounting, computer science, office overheads, insurance)’ – ‘Fees, charges, taxes (duties, taxes, interest rates, memberships, consulting)’ – ‘other expenses and activities’ Total expenses: Fundraising expenses plus other administrative expenses, plus project expenses	Own conclusion																																						
<b>LS VOL</b>	Low share of volunteers to total workers in full-time equivalent  Continuous variable share of voluntary workers in full-time equivalent, classified into three equal-sized groups (low; middle; high), low share is chosen.	(Kreutzer and Jäger 2011; Hwang and Powell 2009)																																						
<b>G STRA / C STRA</b>	– Strategic Orientation (items 1-3) – Consolidation Orientation (items 4 and 5)  Variables derived by factor analysis (KMO 0.6, extraction method: principal component analysis)	(Stone, Hager, and Griffin 1999; Brown and Iverson 2004)																																						
	<table border="1"> <thead> <tr> <th rowspan="2">item</th> <th rowspan="2">Rotated component matrix, varimax, with Kaiser-Normalization, converged in four iterations</th> <th colspan="3">Components</th> </tr> <tr> <th>1</th> <th>2</th> <th>3</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>‘We aim to significantly increase our total fundraising revenue’.</td> <td>.838</td> <td>-.008</td> <td>.053</td> </tr> <tr> <td>2</td> <td>‘In our efforts to win new donors, we aim for a net growth which exceeds the number of donors we have lost’.</td> <td>.834</td> <td>-.078</td> <td>.115</td> </tr> <tr> <td>3</td> <td>‘We work hard to widen our donor mix and open up new channels of donations’</td> <td>.754</td> <td>.199</td> <td>-.368</td> </tr> <tr> <td>4</td> <td>‘In our efforts to win new donors, we only aim to replace the donors we have lost’.</td> <td>-.021</td> <td>.829</td> <td>-.113</td> </tr> <tr> <td>5</td> <td>‘Our fundraising activities focus primarily on keeping the donors we have and improving our relationship with them’.</td> <td>.053</td> <td>.734</td> <td>.302</td> </tr> <tr> <td>6</td> <td>‘We consciously focus our fundraising activities on a limited number of revenue sources’</td> <td>.003</td> <td>.109</td> <td>.940</td> </tr> </tbody> </table>	item	Rotated component matrix, varimax, with Kaiser-Normalization, converged in four iterations	Components			1	2	3	1	‘We aim to significantly increase our total fundraising revenue’.	.838	-.008	.053	2	‘In our efforts to win new donors, we aim for a net growth which exceeds the number of donors we have lost’.	.834	-.078	.115	3	‘We work hard to widen our donor mix and open up new channels of donations’	.754	.199	-.368	4	‘In our efforts to win new donors, we only aim to replace the donors we have lost’.	-.021	.829	-.113	5	‘Our fundraising activities focus primarily on keeping the donors we have and improving our relationship with them’.	.053	.734	.302	6	‘We consciously focus our fundraising activities on a limited number of revenue sources’	.003	.109	.940	
item	Rotated component matrix, varimax, with Kaiser-Normalization, converged in four iterations			Components																																				
		1	2	3																																				
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6	‘We consciously focus our fundraising activities on a limited number of revenue sources’	.003	.109	.940																																				
	* Focusing Orientation (item 6) is deleted because of multicollinearity issues																																							

(Continuation)

<b>B DON</b>	Donors on Board - 'A considerable part of the committee or board of trustees represents the important private or institutional donors of your organization'. Four-point scale: untrue = 0, somewhat untrue = 1, somewhat true = 2, true = 3, categorical variable	(Betzler 2013)
<b>B ACT</b>	Board Activity - 'The committee or board of trustees is actively involved in the fundraising activities of our organization'. Four-point scale: untrue = 0, somewhat untrue = 1, somewhat true = 2, true = 3, categorical variable	(Betzler and Gmür 2012; Green and Griesinger 1996; Hung 1998; Comforth 2001; Ostrower and Stone 2006; Greenfield 2009)
<b>B PROF</b>	Board with professionalized Board Members - 'Our governing board is staffed with professionals from various fields'. Five-point scale: Not true = 0, does rather not apply = 0.25, undecided = 0.5, rather applies = 0.75, true = 1, categorical variable	(Callen, Klein, and Tinkelman 2010)
<b>F (SOC/HEAL/NAT/HOM/HUM)</b>	Field of activity Dichotomous Variables - Subcategory Humanities (yes/no) - Subcategory Social (yes/no) - Subcategory Health (yes/no) - Subcategory Nature (yes/no) - Subcategory Home (yes/no) - Subcategory Humanitarian (yes/no), dichotomous variables	(Ashley and Faulk 2010)

#### Appendix 4: Descriptive Statistics of Dependent and Independent Variables of the Regression Model, Original Data

	FR CAP	AGE (ln)	INC (ln)	FR EXP (ln)	LS VOL	G STRAT	C STRAT	B DON	B ACT	B PROF	Fields of activity**)
<b>N Valid</b>	159	179	238	207	238	224	224	230	230	150	238
<b>Mean</b>	5.00	3.83	14.80	-3.20		0.00	0.00	0.50	1.20	0.49	
<b>Median</b>	5.03	3.91	14.92	-2.86		0.03	0.02	0.00	1.00	0.50	
<b>Std. Deviation</b>	1.00	0.67	1.68	1.45		1.00	1.00	0.80	0.98	0.32	

Notes: \*) = Social Services 26,1 percent / Health: 42,2 percent / Nature 18,1 percent / Nursing Homes 31,8 percent / International Humanitarian Aid 35,9 percent

**Appendix 5. Correlation Table, Imputed Data**

	<b>FR CAP</b>	<b>AGE (ln)</b>	<b>INC (ln)</b>	<b>FR EXP (ln)</b>	<b>LS VOL</b>	<b>G STRA</b>	<b>C STRA</b>	<b>B DON</b>	<b>B ACT</b>	<b>B PROF</b>	<b>F SOC</b>	<b>F HEA</b>	<b>F NAT</b>	<b>F HOM</b>
<b>FR CAP</b>	1													
<b>AGE (ln)</b>	.05	1												
<b>INC (ln)</b>	.24	.34	1											
<b>FR EXP (ln)</b>	.43	-.09	-.07	1										
<b>LS VOL</b>	-.22	-.01	-.07	.05	1									
<b>G STRA</b>	.50	.02	.18	.37	.03	1								
<b>C STRA</b>	.21	.10	-.04	.15	-.00	.00	1							
<b>B DON</b>	.23	-.10	-.12	-.04	-.01	.15	.16	1						
<b>B ACT</b>	.33	-.15	-.21	.22	.02	.23	.09	.21	1					
<b>B PROF</b>	.14	.08	.08	-.13	-.02	-.02	-.08	.04	-.10	1				
<b>F SOC</b>	-.10	.07	-.18	-.08	.01	-.07	.09	.17	.07	.07	1			
<b>F HEAL</b>	-.06	.18	.12	-.20	-.03	-.16	-.10	-.16	-.22	.08	-.51	1		
<b>F NAT</b>	.09	-.01	.08	.11	.06	.07	-.03	-.09	.03	-.06	-.11	-.16	1	
<b>F HOM</b>	-.16	.09	.26	-.48	-.14	-.23	-.01	-.07	-.18	.17	-.09	.31	-.07	1
<b>F HUM</b>	.21	.04	.12	.20	.00	.18	.02	.02	.16	-.07	-.09	-.24	-.08	-.15

*Notes:* Pearson correlation, imputed data, N = 238

**Appendix 6. Correlation Table, Original data**

	<b>FR CAP</b>	<b>AGE (ln)</b>	<b>INC (ln)</b>	<b>FR EXP (ln)</b>	<b>LS VOL</b>	<b>G STRA</b>	<b>C STRA</b>	<b>B DON</b>	<b>B ACT</b>	<b>B PROF</b>	<b>F SOC</b>	<b>F HEA</b>	<b>F NAT</b>	<b>F HOM</b>
<b>FR CAP</b>	1													
<b>AGE (ln)</b>	.16	1												
<b>INC (ln)</b>	.26	.38	1											
<b>FR EXP (ln)</b>	.50	-.12	-.10	1										
<b>LS VOL</b>	-.15	-.15	-.05	-.04	1									
<b>G STRA</b>	.47	-.04	.16	.30	.05	1								
<b>C STRA</b>	.15	.26	-.01	.11	.07	-.11	1							
<b>B DON</b>	.12	.06	-.05	.00	-.03	.17	.16	1						
<b>B ACT</b>	.30	.04	-.22	.25	.22	.15	.04	.08	1					
<b>B PROF</b>	.23	.10	.21	.03	.06	.11	-.01	.09	-.10	1				
<b>F SOC</b>	-.07	.08	-.10	-.10	-.08	.05	.02	.30	.04	.02	1			
<b>F HEA</b>	-.05	.07	.03	-.25	.03	-.28	.03	-.15	-.09	.12	-.40	1		
<b>F NAT</b>	.15	-.01	.11	.12	.04	.12	-.08	-.16	-.00	-.11	-.12	-.23	1	
<b>F HOM</b>	-.20	.11	.13	-.49	-.13	-.26	.03	-.04	-.19	.23	-.05	.32	-.10	1
<b>F HUM</b>	.01	.06	.16	.16	.08	.19	-.02	-.05	.06	-.07	-.22	-.30	-.13	-.16

*Notes:* Pearson correlation, original data, N = 89

**Appendix 7. Results of the Hierarchical Multiple Linear Regression Analysis, Original data**

	Model 1				Model 2				Model 3				Model 4			
	Unstand.Coeff.		t	Sig.	Unstand.Coeff.		T	Sig.	Unstand.Coeff.		t	Sig.	Unstand.Coeff.		t	Sig.
	B	Std. Error			B	Std. Error			B	Std. Error			B	Std. Error		
(Constant)	2.472	0.957	2.584	0.011*	2.88	0.892	3.228	0.002*	2.057	0.872	2.358	0.021*	2.03	0.89	2.279	0.026*
AGE (ln)	0.16	0.158	1.017	0.312	0.127	0.154	0.826	0.411	-0.007	0.146	-0.046	0.963	-0.021	0.149	-0.143	0.887
INC (ln)	0.212	0.065	3.262	0.002*	0.171	0.062	2.775	0.007*	0.211	0.06	3.483	0.001*	0.203	0.062	3.267	0.002*
FREXP (ln)	0.41	0.064	6.361	<0.001*	0.318	0.064	4.973	<0.001*	0.264	0.061	4.31	<0.001*	0.261	0.072	3.659	<0.001*
LSVOL	-0.302	0.257	-1.175	0.243	-0.411	0.241	-1.702	0.092	-0.665	0.233	-2.848	0.006*	-0.718	0.242	-2.972	0.004*
GSTRA					0.349	0.09	3.856	<0.001*	0.296	0.087	3.416	<0.001*	0.316	0.09	3.526	<0.001*
CSTRA					0.136	0.087	1.569	0.121	0.155	0.082	1.895	0.062	0.159	0.083	1.92	0.059
BDOIN									0.028	0.11	0.258	0.797	0.076	0.116	0.658	0.513
BCT									0.312	0.087	3.59	0.001*	0.316	0.087	3.626	<0.001*
BPROF									0.311	0.227	2.249	0.027*	0.314	0.244	2.105	0.039*
FSOC													0.022	0.25	0.086	0.931
FHEA													0.342	0.203	1.683	0.096
FNAI													0.406	0.335	1.212	0.229
FHOM													-0.156	0.302	-0.515	0.608
FHUM													0.019	0.229	0.084	0.933
R (mean)								0.701				0.762				0.779
Adj. R2 (mean)								0.364				0.533				0.532
df1								4				2				5
Sig. F Change (mean)								<0.001				0.001				0.442

Notes: Model summary, fundraising capability as dependent variable, \* significant on a p<0.05 level; N=89)





# Study 4: The Impact of Organizational Fundraising Capability on a Charity's Profits from Private Donations

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## Abstract

*This paper presents an analysis of the relationship between organizational capability and performance in fundraising management. Organizational fundraising capability is an index which combines the degree of professionalization and rationalization; fundraising profit serves as a measure of performance. Hierarchical multiple regression analysis shows that organizational fundraising capability is positively related to fundraising profit, taking into account control variables such as organizational size, organizational age, the share of public subsidies, and organizational impact effectiveness.*

**Keywords:** charity, nonprofit economy, effectiveness, fundraising, organizational behavior

## 1 Introduction

In order to survive in the highly competitive donation market (Thornton 2006), charities strive to systematically increase their organizational capabilities; they work with professional fundraisers and rationalize their fundraising activities. At the same time, they are monitored by the public and are thus expected to control their costs. Furthermore, they are obliged to work in such a way that the organization's total income flows mainly into their substantive charitable and social programs and projects. Under these conditions, practitioners may ask whether increasing fundraising capability will lead to higher fundraising profits, and what is the potential of such an increase.

To date, there is little research on the influence of management factors on fundraising output. For example, Callen (1994) finds a positive effect of volunteering hours on donations, Marudas and Jacobs (2010) find initial evidence that professional fundraising services have an impact on fundraising effectiveness, Sargeant and Kähler (1999) examine the link of fundraising methods and techniques to fundraising expenditures. They report the three most successful fundraising techniques major gift fundraising, trust fundraising, and direct mail (66, 15, 6 pounds mean revenue generated per pound expenditure). Betzler (2013) finds that board composition has a significant positive effect on donations in a sample of Swiss museums. To our knowledge, no study exists that analyzes the influence of organizational fundraising capabilities on fundraising performance.

The present study aims to fill this gap by examining the question of what impact the development of organizational capabilities of fundraising management has on profit, taking into account relevant organizational control variables.

The first part of the theoretical considerations refers to the construction of fundraising capability and to its relationship to organizational or fundraising performance in present research. The second part relates to the choice of the dependent variable of fundraising profit. The resulting research model takes into consideration the behavior of nonprofit organizations (NPOs) in terms of fundraising capability and profit; it specifies the control variables and results in hypotheses. The research model forms the basis for the regression equation applied in the ensuing quantitative analyses.

## 2 On Dependent and Independent Variables

### 2.1 Fundraising Capability

We define fundraising capability as the ability and capacity of an organization to raise money through the management of people and processes (for a definition of organizational capability, see Ulrich and Lake 1990). It comprises the involvement of trained and paid fundraising professionals as well as aspects of a rationalized fundraising organization. Inspired by the work of Hwang and Powell (2009), who developed indexes of professionalization and rationalization in NPOs and found a high correlation between the two factors, we subsume that professional fundraiser involvement and rationalization are not independent but rather interdependent and mutually reinforcing. Professionals as collective actors have a profound effect on institutional environments; they 'exercise enormous influence on cultural-cognitive, normative, and regulative systems, collectively creating and warranting these systems of knowledge and control' (Scott and Davis 2003, p. 268). Vice versa, 'organizational principles, strategies and methods are deeply affecting most professional occupations and expert groups, transforming their identities, structures and practices' (Evetts 2010, p. 12). Thus, a classification of the organizational capability of fundraising management comprises *a combination* of elements from the sociological concept of professionalism *as well as* from the organizational concept of rationalization.

#### 2.1.1 *The Construction of Fundraising Capability*

Based on previous theoretical considerations, the fundraising capability variable used in the present study is a combination of two formative indexes: (1) The index of professionalization measuring the degree of involvement of professionalized fundraisers is derived from the sociological concept of professionalism and contains five indicators or sub-indexes, each chosen in reference to existing research. (2) The index of rationali-

zation refers to rationalist organizational theory and contains three theoretically grounded sub-indexes. The construction of the formative indexes relies on theoretical considerations, where each item is part of the theoretical concept and not interchangeable (Borsboom, Mellenbergh, and van Heerden 2003, 2004). For an overview on the variable specification and measurement, and reference to theory, see Table 1. For more details see Study 3.

	<b>Variable Specification and Measurement</b>	<b>Reference to Theory</b>
<b>Sub-Prof 1</b>	Relative number of paid fundraisers  Share of number of paid fundraisers to number of all voluntary and paid fundraisers  Continuous variable	(Flexner 1915; Greenwood 1957; Chatterjee and Stevenson 2008; Hwang and Powell 2009)
<b>Sub-Prof 2</b>	Relative size of fundraising staff  Share of paid fundraisers to the total of paid staff in the organization  Continuous variable	This indicator shows the importance the organization attaches to employ fundraising staff.
<b>Sub-Prof 3</b>	Relative number of qualified fundraisers  Share of qualified to paid fundraisers  Continuous variable	(Flexner 1915; Greenwood 1957; Chatterjee and Stevenson 2008; Hwang and Powell 2009)
<b>Sub-Prof 4</b>	Importance of experts  – ‘External consultants or experts have a significant influence on our strategic fundraising activities.’  Categorical variable, four-point scale: untrue = 0, somewhat untrue = 1, somewhat true = 2, true = 3	(Majone 1984; Suárez 2011; Marudas and Jacobs 2010)
<b>Sub-Prof 5</b>	Importance of professional fundraisers in governing boards  – ‘One of the members of the committee or board of trustees is a fundraising expert of consultant’  Categorical variable, four-point scale: No = 0, in planning = 1, in development = 2, yes = 3.	(Callen, Klein, and Tinkelman 2010)

(Continuation)

<b>Sub-Rat 1</b>	<p>Degree of implementation of a fundraising process design</p> <p>Total of fundraising management process steps:</p> <ul style="list-style-type: none"> <li>– ‘Analysis of donation market, potential analysis’</li> <li>– ‘Analysis of own donor pool’</li> <li>– ‘Development of a specific fundraising strategy/concept’</li> <li>– ‘Systematic controlling of individual fundraising activities’</li> <li>– ‘Tests, evaluation of different possibilities prior to implementing a campaign’</li> <li>– ‘Measuring how well the organization is known to the public’</li> <li>– ‘Increased, personal donor care’</li> </ul> <p>Categorical variable, four-point scale: No = 0, in planning = 1, in development = 2, yes = 3.</p>	(Scott and Davis 2003)
<b>Sub-Rat 2</b>	<p>Degree to which organization follows certain strategies and implement certain strategic tools.</p> <p>Total of use of strategic management tools:</p> <ul style="list-style-type: none"> <li>– ‘We aim to significantly increase our total fundraising revenue’.</li> <li>– ‘In our efforts to win new donors, we only aim to replace the donors we have lost’.</li> <li>– ‘We invest in fundraising until each new franc we invest generates more revenue than the previously invested franc (maximum marginal utility)’.</li> <li>– ‘Our fundraising activities are based on a fixed budget and we aim to generate as much revenue as possible’.</li> <li>– ‘In our efforts to win new donors, we aim for a net growth which exceeds the number of donors we have lost’.</li> <li>– ‘Our fundraising activities focus primarily on keeping the donors we have and improving our relationship with them’.</li> <li>– ‘We consciously focus our fundraising activities on a limited number of revenue sources’.</li> <li>– ‘Our fundraising activities are based on a revenue target and we do as much fundraising as necessary to reach our target’.</li> <li>– ‘We work hard to widen our donor mix and open up new channels of donations’.</li> </ul> <p>Categorical variable, four-point scale: untrue = 0, somewhat untrue = 1, somewhat true = 2, true = 3</p>	(Scott and Davis 2003)
<b>Sub-Rat 3</b>	<p>Division of labor in the governing board regarding the fundraising tasks</p> <ul style="list-style-type: none"> <li>– ‘The committee or board of trustees has a subcommittee in charge of fundraising’.</li> </ul> <p>Categorical variable, four-point scale: untrue = 0, somewhat untrue = 1, somewhat true = 2, true = 3</p>	(Weber 1947; Scott and Davis 2003)

Table 1. Variable Specification and Measurement of Sub-indexes, Reference to Theory  
*Note:* Minimum = 0; maximum = 1.

The procedure of formative index construction is carried out as follows (for formative index construction, see for example Diamantopoulos and Winklhofer 2001; Schnell, Hill, and Esser 2011): First, several indicators that describe the construct's 'intensity of the involvement of professional fundraisers' (Sub-Prof 1-5) and the 'rationalization of the organization in the area of fundraising' (Sub-Rat 1-3), are identified, based on the theoretical considerations (Table 1, for more details see Study 3). Subsequent to this theoretical construct validation, we test the independence of the items and their directionality with principal component analysis and regression analyses (Diamantopoulos and Winklhofer 2001; Coltman *et al.* 2008). We proceed with summative index formation, because factor analysis does not result in strong factors, and regression analysis shows no suspicion of collinearity (for more details, see Study 3), and therefore we consider the items as relatively independent. Subsequently, the respective items are normalized to obtain scale ranges from zero to one, and then added to form two components: One describing the 'intensity of the involvement of professional fundraisers' (Index Prof), and one describing the 'rationalization of the organization in the area of fundraising' (Index Rat). For descriptive statistics of the indicators and the constructs that describe rationalization and the influence of professional fundraisers, see Table 2.<sup>1</sup>

<b>Sub-Indexes and Components of Fundraising Capability</b>	<b>Mean</b>	<b>Median</b>	<b>Standard Deviation</b>
Sub-Prof 1	0.84	0.96	0.30
Sub-Prof 2	0.12	0.05	0.17
Sub-Prof 3	0.29	0.00	0.37
Sub-Prof 4	0.26	0.33	0.30
Sub-Prof 5	0.18	0.00	0.31
Sub-Rat 1	0.50	0.52	0.31
Sub-Rat 2	0.52	0.54	0.17
Sub-Rat 3	0.38	0.33	0.40
Index Prof	5.00	4.91	1.00
Index Rat	5.00	5.02	1.00

Table 2. Descriptive Statistics of Indicators and Components of Fundraising Capability

In the present data sample, the indexes of professionalization and rationalization are correlated with a Pearson correlation coefficient of 0.522. The fundraising capability index is calculated as the product of both indexes and the square root is taken (sqrt [index 1 x index 2]); it is then scaled from zero to ten. By calculating the product, we

<sup>1</sup> Sub-indexes of formative indicators do not need to be equally distributed (Diamantopoulos and Winklhofer 2001). The theoretical construct of fundraising capability expressed by a formative indicator does not anticipate that the isolated items are all significantly linked to the organization's success (Jarvis, Mackenzie, and Podsakoff 2003). Therefore, these influences are not tested.

assume a limited substitutability between both indexes: Fundraising capability is zero if at least one of the indexes is zero. This assumption reflects our theoretical considerations: An involvement of trained, paid professionals implies a certain degree of rationalization, and rationalization is not realizable without some professionalization (Hwang and Powell 2009).

It is a challenge to empirically analyze the validity of a formative factor like fundraising capability, and '[...] so far, one of the key operational issues in the use of formative indicators is that no simple, easy and universally accepted criteria exists for assessing the reliability of formative indicators' (Coltman *et al.* 2008). At best, we can check how the index is linked to other relevant organizational variables (Bagozi 1994, cited in Diamantopoulos and Winklhofer 2001). Performance variables seem to be good validator factors (Diamantopoulos and Winklhofer 2001).

We therefore ask: **Is it plausible that higher fundraising capability leads to better performance?**

### 2.1.2 *Previous Research*

Previous research shows some valuable results concerning aspects of fundraising capability and their linkages with fundraising performance:

Concerning the aspect of rationalization, attention is mainly paid to the entire non-profit organization and its connection with organizational performance. Strategies to promote rationalization in nonprofit settings include standard setting, monitoring and enforcement, inspection, and oversight (Morison 2000). In recent years, numerous approaches to improve efficiency such as total quality management, benchmarking, balanced scorecard, and outcome measurements have been tested in NPOs (Cairns *et al.* 2005; Paton 2003). Many studies on planned giving show the relevance of strategy-oriented and rationalized behavior in fundraising management activities (for an overview see Brown 2004). Rationalization has permeated the entire nonprofit organization up to the mostly voluntary governing board. The extensive body of research on the effectiveness and efficiency of boards which has been conducted until now (Brown 2005; Brown and Iverson 2004; Callen, Klein, and Tinkelman 2003; Cornforth 2001; Duca 1996; Fletcher 1992; Gill, Flynn, and Reissing 2005; Green and Griesinger 1996; Jackson and Holland 1998; Herman and Renz 1998) shows the relevance of this aspect. For example, Hodge and Piccolo (2005) find that CEOs of privately funded agencies tend to use more board involvement techniques than CEO's of agencies funded by government grants or commercial activity. But in sum, we note a lack of studies that investigate the relationship between rationalized fundraising activities, such as process ori-

entation or strategic management, and performance in fundraising management specifically.

Concerning the aspect of the involvement of professional staff, however, some studies exist that investigate a linkage to fundraising success; namely Hager, Rooney, and Pollak (2002) extensively analyze the fundraising management practice on a sample of US charities. They find that 63 percent of the investigated organizations do not have a full-time fundraising staff member, and executive directors and volunteers are more involved with fundraising when the organization has a fundraising staff member. In their analysis on fundraising in colleges, Proper *et al.* (2009) find that the total staff size is positively correlated with dollars raised. Further, Marudas and Jacobs (2010) provide evidence that the use of professional fundraising services by US NPOs increases the effectiveness of fundraising. The empirical findings of Sieg and Zhang (2012) suggest that managerial capacity is an important factor in determining charitable donations, whereby the authors measure the investment in management capacity by the accumulated managerial expenses of the overall organization. Suárez (2011) finds evidence that the involvement of professional fundraisers is consequential for government grants and contacts, based on two hundred interviews with leaders of NPOs in the San Francisco Bay Area.

## **2.2 Nonprofit Behavior and Fundraising Profit as a Measure of Fundraising Effectiveness**

Most research on fundraising effectiveness investigates the effects on donations. Here, the underlying microeconomic assumption is that the nonprofit organization seeks to maximize gross revenues from fundraising. There is much research in this field; for example, authors evaluate the financial input factors that explain the amount of the donation income, such as government grants (Okten and Weisbrod 2000; Andreoni and Payne 2003, 2011; Posnett and Sandler 1989), program service revenues (Okten and Weisbrod 2000), and profits from sales (Kingma 1995). Other researchers focus on the relationship of donations with success factors important for NPOs such as organizational efficiency (Callen 1994; Ashley and Faulk 2010), administrative inefficiency (Jacobs and Marudas 2009; Tinkelman and Mankaney 2007; Frumkin and Kim 2001), or fundraising efficiency (Surysekar and Turner 2012); however, donations are primarily sensitive to price ( $1 / 1 - FR$  exp; Posnett and Sandler 1989) and/or, fundraising expenditures (see for example Okten and Weisbrod 2000; Marudas and Jacobs 2010; Weisbrod and Dominguez 1986; Marudas and Jacobs 2007; Jacobs and Marudas 2006, 2010, 2009; Tinkelman and Mankaney 2007; Andreoni and Payne 2011; Callen 1994; Khanna, Posnett, and Sandler 1995; Posnett and Sandler 1989; Tinkelman 1998). This

often empirically confirmed sensitivity, however, simply reflects the logic of investing: The more money is spent, for example, on manpower and marketing campaigns for fundraising, the more return on donations is expected. As a result of the strong relationship between incoming donations and fundraising expenditure, methodological problems such as endogeneity appear in linear regression and the likely crowding-out of variables impedes the identification of other important predictors. We therefore conclude that donations must be adjusted by fundraising expenses prior to econometric analyses. For this reason, we have decided to choose fundraising profit as a suitable predictor.

Profit is a predominant measure of success in organizational economic research. According to Steinberg, this should also be used in fundraising because '[...] unless an organization has all the resources it needs to fully accomplish its mission, the right amount to spend is the amount that produces the greatest net proceeds (donations minus costs)' (Steinberg and Morris 2010, p. 80; Steinberg 1991). Thus, a nonprofit organization behaves in such a way that revenue is increased while expenditure is kept to a minimum to obtain the highest possible fundraising effectiveness.

Previous research shows that NPOs fall short of profit maximization in some industries while in other industries it is excessive (Okten and Weisbrod 2000). Posnett and Sandler (1989) show that 299 of the largest charities that raise funds in the UK maximize their profits from donations when they decide on fundraising expenditures. This result is in contrast with Weisbrod and Dominguez (1986) whose study demonstrates that NPOs in the US increase their fundraising expenditures beyond profit maximization to the point of total revenue maximization. By way of a fixed-effects-estimation on a data set of 1599 prominent UK charities, Khanna, Posnett, and Sandler (1995) show that social welfare charities raise funds short of the point at which profits are maximized, whereas health and overseas charities are found to maximize profit, and religious charities maximize total revenues (Khanna, Posnett, and Sandler 1995). Jacobs and Marudas (2006) test the hypothesis that the fundraising elasticity of donations is equal to the ratio of fundraising expense to donations. This ratio is proposed to be used as the correct benchmark of whether the NPO is maximizing net donations. We find no study which analyzes linkages between managerial variables and fundraising profit.

### **3 Research Model and Hypotheses**

The competition for donations in the donation market is intensifying (Thornton 2006) and fundamentally changing the behavior of fundraising managers. For NPOs, it has now become mainly a matter of securing the highest possible market share while controlling fundraising expenditure, which is what private donors and public authorities expect. Therefore, the maxim of action is the increase in donations-profits (FR profit),



also referred to as net donations or as gains (see previous section). This measure for economic success is calculated as the difference between income on donations (DON) and fundraising expenses (FR exp), and is hereafter used as a dependent variable:

$$FR\ profit = DON - FR\ exp$$

The focus on growing profits is associated with an expansion of fundraising activities. To increase fundraising profits, charities increase their internal organizational capabilities in fundraising management (FR cap): a reinforcement of the involvement of fundraising professionals and the rationalization of organizational structures. Because this managerial variable of fundraising capability fosters organizational quality, we assume that it brings in some added value, which can be expressed only partly in terms of the absolute fundraising expenses. Previous research indicates that sub-indexes of fundraising capability, such as professional knowledge and rational organization structures, tend to foster performance (see this chapter, section 2.1.2 'Previous Research'). We therefore expect that fundraising capability is positively related to fundraising profit.

Testing the relationship between fundraising profit and fundraising capability requires that relevant control variables be included in the analysis. Table 3 shows variable specifications in detail.

Control Variables	Specification and Measurement	Reference to Theory
<b>SIZE</b>	Total income  Continuous Variable – 'What was the total revenue in 2010? Please note the following: [...]'	(Cornforth and Simpson 2002)
<b>SPUB</b>	Share of public subsidies  Continuous Variable (total of public subsidies by total income) – 'Please enter below the total revenue from the contributions of the public sector in 2010. These are: Posts by municipalities, cantons, the federal government and from abroad, from municipalities or cantons without contracts, contracts BSV (disability insurance), SDC, etc.'	(Andreoni and Payne 2003, 2011; Kingma 1989)
<b>AGE</b>	Organization Age  Continuous Variable (Year of research minus foundation year) – 'When was your organization founded?'	(Herman and Renz 1998; Okten and Weisbrod 2000; Tinkelman 2004) Proper <i>et al.</i> (2009) Hwang and Powell (2009)

(Continuation)

<b>ORG effect</b>	Organizational Effectiveness  Continuous Variable (total of program expenditures by total income)  Project expenses: Sum of (see below) in Swiss francs: – ‘Staff of head office’ – ‘Total staff at the place of performance’ – ‘General and administrative expenses (room expenses, fundraising, information internally, travel, asset management, accounting, computer science, office overheads, insurance)’ – ‘Fees, charges, taxes (duties, taxes, interest rates, memberships, consulting)’ – ‘other expenses and activities’  Total expenses: fundraising expenses plus other administrative expenses, plus project expenses	(Tinkelman and Mankaney 2007).
<b>Dependent Variable FR profit</b>	Fundraising Profit  Continuous Variable (total fundraising income minus total fundraising expenses)  Fundraising expenses: sum of (see below) in Swiss francs: – ‘Staff of head office’ – ‘Total staff at the place of performance’ – ‘General and administrative expenses (room expenses, fundraising, information internally, travel, Asset management, accounting, computer science, office overheads, insurance)’ – ‘Fees, charges, taxes (duties, taxes, interest rates, memberships, consulting)’ – ‘Other expenses and activities’	See this chapter, section 2.2 ‘Nonprofit Behavior and Fundraising Profit as a Measure of Fundraising Effectiveness’  Steinberg and Morris 2010, p. 80; Steinberg 1991

Table 3. Variables, Specification, Measurement of Control Variables, Reference to Theory  
*Note:* For conceptualization of fundraising capability, see Table 1.

The most obvious control variable is organization size, which has become a well-established control variable (Cornforth and Simpson 2002); it is measured here by the total income. We assume that the higher the organizational income is, the higher its fundraising profits are (hypothesis HC1; Table 6).

In addition, financing mixes of NPOs vary, and a large part of the charities in Switzerland receive public subsidies. These organizations generally carry out fundraising activities as well, but are less dependent on making profits from private donations because public subsidies provide budgeting reliability. Previous studies have shown that private donations may be displaced by public subsidies (Andreoni and Payne 2003, 2011; Kingma 1989). We therefore expect that those organizations with a low share of public subsidies obtain higher profits (hypothesis HC2; Table 6).

Further, we assume that the relationship between fundraising profit and fundraising capability is influenced by organization age (AGE), which is identified by many authors in nonprofit research (Herman and Renz 1998; Okten and Weisbrod 2000; Tinkelman 2004). Proper *et al.* (2009) find a positive correlation between institutional age and dollars raised. Hwang and Powell (2009) find a negative relationship between rationalization and organizational age and conclude that newly formed organizations are more likely to introduce new management methods. However, the variable loses its influence when the covariate professionalization is included in the model, which leaves this example open regarding a prediction on possible effects on fundraising capability. We expect that an organization which has more time to develop its fundraising capability is more successful in gaining donations. Therefore, we expect that organization age is positively related to fundraising profit (hypothesis HC3; Table 6).

In addition, donors, public authorities, and other important stakeholders are increasingly demanding a higher effectiveness of a charity in achieving its mission, and total revenue is expected to flow primarily into the substantive social or charity programs (Tinkelman and Mankaney 2007). In this context, fundraising profit must be viewed in conjunction with the measure of organizational impact effectiveness. Maximization of fundraising profit and organizational impact effectiveness could be contradictory goals which might create internal frictions and hinder the pursuit of fundraising profit. The organizational effectiveness is the reciprocal of the administration inefficiency used by Marudas and Jacobs (Jacobs and Marudas 2009; Marudas and Jacobs 2007;  $ORG\ effect = PROG\ exp / total\ INC$ ). We assume that organizational impact effectiveness is negatively related to fundraising profit. The higher the share of the resources flowing into the charity and social programs instead of being invested in the general administration of fundraising activities, the lower the amount of fundraising profit is expected (hypothesis HC4; Table 6).

Overall, we hypothesize that the relevant control variables (*SIZE*, *SPUB*, *AGE*, *ORG effect*) contribute significantly to the explanatory power of the model (hypothesis HC; Table 6).

The full research model (Figure 1) considers these relevant control variables; the following main hypothesis is formulated:

*If we test for the effect of organization size (SIZE), the share of public subsidies (SPUB), organization age (AGE), and organizational impact effectiveness (ORG effect), we expect that fundraising capability is significantly positively related to fundraising profit (Figure1; Table 6).*

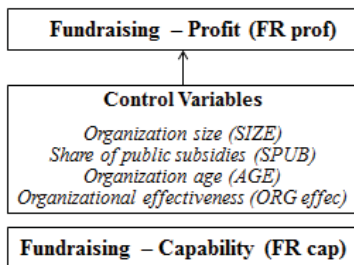


Figure 1. Research Model

#### 4 Sample and Data Characteristics

The data used in this analysis is provided by the Swiss watchdog organization for donation-collecting human service organizations (Foundation ZEWÖ). The data of 2010 was collected during 2011 and primarily includes, in addition to general organizational data such as organization size, legal form, field of activity, and employees, information on fundraising expenses, fundraising revenue, sources of funding, and fundraising practices. A detailed survey guide and personal support provides good data quality considering that the data requested, such as fundraising expenditures, is sensitive and difficult to collect. Missing data analysis shows that sixty percent of the cases are complete and 17 percent of the overall data is missing.

The 238 charities recorded in the donation statistics received a total of 850 million Swiss francs in private donations. This is approximately a little more than half of the overall estimated volume of 1.6 billion Swiss francs of the total Swiss donation market. At 41 percent, the private donations income share is higher in this dataset than the share of the revenues from the public sector contributions, which is at 35 percent. The charities' service revenues equal 23 percent. The main sources of funding are small individual donations (31 percent), membership fees (20 percent), financial support from other NPOs (17 percent), and legacies (13 percent). The remaining donations income is distributed among Swiss Solidarity (a Swiss fundraising network for catastrophe aid, 5 percent), donations of public authorities (2 percent), corporate donations (3 percent), legacies and other major donations (3 percent), godparenthoods (3 percent), and others (2 percent). In contrast, 132 million Swiss francs were spent on fundraising, which is a share of 17 percent of the total expenditure.

We briefly look at some important characteristics of the dataset. The dataset contains mixed organization sizes; 22 organizations have a total income of between one million and 149 million Swiss francs, and twelve organizations have between 31 thou-

sand and half a million Swiss francs of total income. Most of the organizations lie between half a million and one million Swiss francs of total income. The distribution of the donation share is u-shaped, which means that there are many organizations which are financed mainly through private donations, but there are also many organizations whose donation percentage is very low. Furthermore, the data shows a strong positive correlation between fundraising income and expenditure with a Pearson correlation of 0.818, which is analogous to other research on fundraising data (Marudas and Jacobs 2010; Frumkin and Kim 2001) and which strengthens our decision to use fundraising profit as a success measure (see this chapter, section 2.2).

## 5 The Empirical Results

### 5.1 Hierarchical Multiple Linear Regression

Linearity tests and the respective scatter plot (Figure 2) show that the linear model is the appropriate method to investigate the relationship between fundraising profit (in logarithmized form: *FR prof (ln)*) as a dependent variable and fundraising capability as an independent variable. We use the hierarchical method to investigate the effect of the bundle of control variables in addition to the effect of fundraising capability (*FR cap*), along with the analysis of the effects of each single variable. Model one investigates the relationship between fundraising profit as a dependent variable and the control variables organizational size (*SIZE*), share of public subsidies (*SPUB*), age (*AGE*), and organizational impact effectiveness (*ORG effect*). Model two includes fundraising capability (*FR cap*).

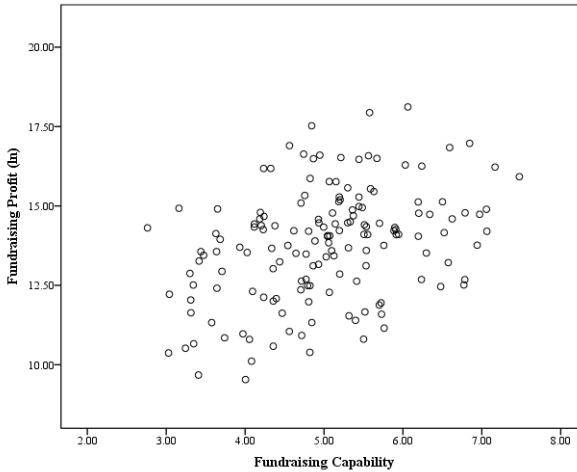


Figure 2. Scatter Plot, Fundraising Capability versus Fundraising Profit

The dataset contains some missing data. From the dataset of 238 cases, we delete those 5 cases with more than 50 percent missing values as we assume that these organizations did not fill out the questionnaire accurately. The remaining dataset of 234 cases contains 11 percent missing data, with 123 out of 234 cases containing complete information (Appendix 1). The case to predictor relationship is one to twenty and therefore generally sufficient for multiple regression. However, Little's MCAR test is significant, which means that the missing values are not random and therefore simple exclusion of cases is not recommended. Hence, in order to obtain evidence on the behavior of the full data sample, the method of data imputation is also employed and compared with the regression model of the complete cases ( $N=123$ ). We are aware that in a significant MCAR test, the application of imputation methods is problematic as well. For this reason, we interpret this data very carefully and compare it with the regression of the complete cases ( $N=123$ ). For the imputation of missing values, we use algorithms of linear regression provided by SPSS (Rubin 1987; Raghunathan *et al.* 2001; Schafer 1997) and carry out 20 imputations. The results are displayed as means (pooled; imputed data in brackets). In our dataset, comparison of the hierarchical multiple regression model with imputed ( $N=234$ ) and not imputed, original data ( $N=123$ ) shows differences in AGE (ln), but otherwise they match very well, indicating that the smaller sample ( $N=123$ ) might still adequately represent the whole dataset. Simple means and standard deviations of all variables can be found in Table 4.

	Imputed Data	Original Data	
	N = 234	N = 123	
	Mean	Mean	Std. Deviation
<b>FR profit</b>	13.41	14.00	14.00
<b>SIZE (ln)</b>	14.85	15.30	15.30
<b>SPUB</b>	0.26	0.26	0.26
<b>AGE (ln)</b>	3.82	3.87	3.87
<b>ORG eff</b>	0.79	0.79	0.79
<b>FR cap</b>	4.90	5.05	5.05

Table 4. Descriptive Statistics of Variables of the Hierarchical Linear Model  
Notes: Mean of the imputed data, N = 234, and mean and standard deviation on the original data, N = 123

The data is checked for outliers according to the outlier labeling rule with no outliers found (Hoaglin and Iglewicz 1987). The variables are visually inspected for normal distribution and, if necessary, logarithmized. The hierarchical multiple regression results for the original data (N=123) can be found in Table 5 and the results for the imputed data can be found in Appendix 2. The full model for multiple linear regressions, given  $n$  observations, is:

$$\ln(FR\ profit_i) = \beta_0 + \beta_1 \ln(SIZE_{1n}) + \beta_2 SPUB_{2n} + \beta_3 \ln(AGE)_{3n} + \beta_4 ORG\ effect_{4n} + \beta_5 FR\ cap_{5n} + \varepsilon$$

The conditions of the multiple regression analysis are fully met. Autocorrelation can be excluded since the Durban-Watson measure in both analyses lies between the accepted ranges of 1.5 to 2.5 (2.0 for original data and 1.8 for imputed data); thus, tests of significance are valid. Multicollinearity is unlikely since the variance inflation factor (VIF) is consistently below 1.5, whereas some authors recommend values below five or even ten (Kutner, Nachtsheim, and Neter 2004; O'brien 2007). All correlations amongst the independent variables are weak to moderate, ranging from  $r = 0.36$  to  $r = -.35$  (see Appendixes 3, 4). The scatterplots of the standardized residuals (the errors) by the standardized predicted value of the original data and the 20 iterations show uniformly and randomly distributed values; there are therefore no grounds for suspicion of heteroskedasticity (Berry and Feldman 1985). Different tests are performed with no significant interaction-effects found. The explanatory power of the full model (model 2) is high and shows an adjusted R square of 0.79 (Table 5; 0.71, Appendix 2).

	Model 1				Model 2					
	Unstd. Coeff.		Std. Coeff.	T	Sig.	Unstand. Coeff.		Std. Coeff.	T	Sig.
	B	Std. Error	Beta			B	Std. Error	Beta		
<b>(Constant)</b>	1.774	0.878		2.022	0.045*	0.595	0.923		0.645	0.520*
<b>SIZE (ln)</b>	1.030	0.059	0.912	17.525	<0.001*	0.973	0.059	0.861	16.379	<0.001*
<b>SPUB</b>	-3.317	0.340	-0.465	-9.758	<0.001*	-3.222	0.329	-0.452	-9.798	<0.001*
<b>AGE (ln)</b>	-0.283	0.141	-0.099	-2.006	0.047*	-0.292	0.136	-0.102	-2.151	0.034*
<b>ORG effect</b>	-1.979	0.736	-0.134	-2.687	0.008*	-1.101	0.761	-0.074	-1.447	0.151
<b>FR cap</b>						0.272	0.085	0.151	3.189	0.002*
<b>R square</b>	0.770				0.788					
<b>Adjusted R Square</b>	0.762				0.779					
<b>Std. Error of the Estimate</b>	0.848				0.817					
<b>R Square Change</b>	0.770				0.018					
<b>F Change</b>	98.745				10.167					
<b>df1</b>	4				1					
<b>df2</b>	118				117					
<b>Sig. F Change</b>	<0.001*				0.002*					

Table 5. Hierarchical Multiple Linear Regression on Original Data, Model Summary

Notes: Fundraising profit (ln) as a dependent variable, \* significant on a  $p < 0.05$  level;  $N = 123$ .

Model one with the set of control variables is statistically significant  $F(4, 118) = 98.75$ ;  $p < 0.05$  and explains with an adjusted R square of 0.76, 76 percent of fundraising profit ( $F(4, 229) = 128.514$ ;  $p < 0.05$ ; adj. R square 0.67). Therefore, hypothesis HC (Table 6) is likely to be true, which means that control variables are significantly relevant. The individual predictors show the following results: Organizational size (*SIZE*) has a strong positive effect on fundraising profit as expected. Larger organizations have higher profits in private donations. Therefore, the respective null hypothesis must be rejected and hypothesis HC1 (Table 6) is likely to be true (Table 6, Appendix 2). The share of public subsidies (*SPUB*) is negatively related to fundraising profit. Thus, organizations that obtain public subsidies apply less pressure on making profits. Hypothesis HC2 is likely to be true since the respective null hypothesis must be rejected. Further, organization age (*AGE*) is negatively related to profit in fundraising. The younger a charity, the higher the fundraising profit. This result is contradictory to what we expected. Turning to the imputed data results, we cannot find evidence of a significant relationship between organization age (*AGE*) and fundraising profit (*FR prof*). More research on the effect of organization age on fundraising profit should be done. Consequently, HC3 (Table 6) must be withdrawn. Next, fundraising profit is negatively



related to organizational impact effectiveness (*ORG effect*) as assumed. Organizations that spend a lower share on their charitable and social programs obtain higher fundraising profits. Therefore, the respective null hypothesis must be rejected and HC4 (Table 6) is likely to be true.

Model two adds fundraising capability, which raises the explanatory power of the model significantly,  $F(1, 117) = 10.167$ ;  $p < 0.05$ , and explains 79 percent of the fundraising profit. This is also the case with imputed data ( $F(1, 228) = 19.131$ ;  $p < 0.05$ ; adjusted R square 71 percent). Despite the new variable of fundraising capability (*FR cap*), hypothesis HC (Table 6) is still likely to be true, which means that the control variables are significantly relevant. Concerning the influence of the individual control variables, organization size (*SIZE*), organization age (*AGE*), and share of public subsidies (*SPUB*) are still significant, but organizational impact effectiveness (*ORG effect*) is no longer significant; therefore, the respective null hypothesis cannot be rejected in this model. This is notable because fundraising capability seems to compensate the effect that with higher donation profits, organizational impact efficiency is reduced. Fundraising capability (*FR cap*) is significantly positively related to fundraising profit. The respective null hypothesis must be rejected, which means this paper's main hypothesis H (Table 6) is probably true. Thus, it is likely that if we test for the effect of organization size (*SIZE*), the share of public subsidies (*SPUB*), and organization age (*AGE*), fundraising capability is still significantly positively related to fundraising profit (*FR prof*; Table 6).

Alternative Hypotheses ( $H_1$ )	Test rules	$H_0$
We expect...		<b>not rejected (NR) / rejected (R)</b>
HC1 ...that the higher the organizational income, the higher its fundraising profits.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	R (model 1 and 2)
HC2 ...that those organizations with a low share of public subsidies obtain higher profits.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	R (model 1 and 2)
HC3 ...that organization age is positively related to fundraising profit.	One-tail alternative hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_j > 0$	NR (model 1 and 2)

(Continuation)

HC4	...that organizational impact effectiveness is negatively related to fundraising profit.	One-tail alternative hypothesis: left $H_0: \beta_j = 0$ $H_1: \beta_j < 0$	R (model 1) NR (model 2)
HC	...that the relevant control variables contribute significantly to the explanatory power of the model.	Two-tail alternative hypothesis $H_0: \beta_j = 0$ $H_1: \text{at least one } \beta_j \neq 0$	R (model 1 and 2)
H	<i>If we test for the effect of organization size (SIZE), the share of public subsidies (SPUB), organization age (AGE), and organizational impact effectiveness (ORG effect), we expect that fundraising capability is significantly positively related to fundraising profit.</i>	One-tail alternative Hypothesis: right $H_0: \beta_j = 0$ $H_1: \beta_5 > 0; \beta_1 = \beta_2 = \beta_3 = \beta_4 \neq 0$	R (model 2)

Table 6. Hypotheses on the Relationship of Fundraising Profit with Fundraising Capability and Control Variables, Decision Rules, and Results  
Notes: Level of significance < 0.05

## 5.2 Estimation

By taking model two and holding the control variables constant, we can make the following estimates concerning the relationship of fundraising capability to fundraising profit: If we change fundraising capability by one step (remember: The index contains ten steps), we would expect fundraising profit (ln) to change by 27 (30 percent in the imputed data set). When we look at the confidence intervals for Beta, the data predicts, at a percentage of 95, that fundraising profit rises by at least 10 percent to a maximum of 44 percent (12 percent minimum to 48 percent maximum). For example, an organization with the minimum of fundraising capability of 2.76 has a predicted fundraising profit of 223 953 Swiss francs. If it raises its fundraising capability by one index point, it is expected to raise its profits up to 284 420 Swiss francs. An organization with the maximum of fundraising capability of 7.48 has an expected fundraising profit of 12.22 million Swiss francs. If it reduces its fundraising capability by one index point, it is expected to reduce its profits down to 8.92 million Swiss francs (Table 5). The seven sub-indexes display the different areas in which fundraising capability can be developed further (Table 1).

## 6 Conclusion

Rationalization and professionalization are trends in nonprofit organizations (Hwang and Powell 2009; Frumkin and Kim 2001), which are often triggered by the fundraising section or department, where profit-maximization is practiced. Profit maximization refers to increasing revenues while controlling costs. To achieve this goal, it is recommended by consultants and management professionals to develop effective fundraising strategies and efficient processes, which require working with trained personnel.

This study shows that it does, in fact, pay to invest in the development of organizational fundraising capability. Despite influential control variables, fundraising capacity is shown to be positively related to fundraising profit. The results shed light on how collecting private donations functions: A stronger involvement of fundraising professionals and a rationalization of fundraising activities results in higher profits, despite investment costs such as for training or expenses for staff and consultancy.

The results of the hierarchical linear regression analysis are unambiguous. It is shown that some organizational characteristics have a strong impact on the research model. Organizational size is significantly positively related to fundraising profit, and the share of public subsidies is negatively related. Organizational age shows differences in the imputed and in the original dataset; therefore, it is recommended to further investigate the effects of organizational age on fundraising profit. Organizational impact effectiveness is negatively related to fundraising profit in model one, but loses its influence when fundraising capability is introduced in model two. This is notable since fundraising capability seems to compensate the effect that with higher donation profits, organizational impact efficiency is reduced. Despite the influences of these relevant control variables, fundraising capability explains fifteen percent of the variance and is shown to be positively related to the profits a nonprofit organization achieves in fundraising.

Organizations that want to raise their profits should strengthen their fundraising capability and improve various aspects of their fundraising organization: It is recommended they involve professional fundraisers as paid staff in management or as paid experts. Further, they can qualify and train their own staff and engage more volunteer fundraising experts on their boards. Concerning rationalization, charities can implement a process design and plan their fundraising activities strategically; they can create a division of labor with a fundraising committee at the board level. For practitioners, a fundraising capability index might be an important tool in determining how far the ability and capacity to acquire funds can be developed at the organizational level. An even more detailed elaboration of the sub-indexes as well as tests on other datasets, however,

would be necessary, for example, to develop a standardized monitor in which each organization could ascertain its own level of fundraising capability and then use the monitor as a consulting tool.

This study contributes to research in nonprofit behavior in three ways. First, it shows the relevance of fundraising capacity, which is a new qualitative, managerial variable in an institutional economic framework. Viewed by the resource-based perspective of competitive advantage (Barney 1991), fundraising capability provides a competitive advantage. We want to encourage the scientific community to further develop fundraising capability and to identify additional relevant managerial factors that foster fundraising performance. Second, to reach the organizational sub-goal of fundraising effectiveness, we do not assume efficiency-oriented or donation maximization behavior, but rather profit-oriented organizational behavior. We are aware that the neo-classical approach of profit-maximization applied here is not generally accepted as a main goal for nonprofit organizations since they are designed precisely not to generate profits. However, in some cases NPOs do pursue profit-maximization behavior (Niskanen 1971). Third, fundraising profits are often viewed not as organizational outcomes, but rather as input which is intended to be invested in charitable and social projects (Hansmann 1986). This analysis has shown that this view is a misconception because the proportion that flows into the projects decreases as the amount of fundraising profits increases (model 1), or at least no effects are detected when fundraising capability is introduced (model 2). To maintain their original *raison d'être*, Swiss NPOs should at least ensure that the proportion they invest in their charitable and social projects is maintained.

There are legitimate criticisms on the pure economic view on nonprofit organizations and the rational economic behavior of the actors involved (Eikenberry and Kluver 2004; Eikenberry 2009). For example, a nonprofit organization's philanthropic mission itself may shift towards profit orientation (Steinberg and Weisbrod 2005; Valentinov 2011), and this may reduce the intrinsic motivation of the stakeholders (Deckop and Cirka 2000). However, it is a fact that a fundraising management section or department of a NPO in particular is taking on more and more the function of a driver of economic-rational behavior and is becoming an area where processes are standardized and fundraising success is benchmarked by watchdog organizations and states. Nonprofit organizations are now being challenged to carefully integrate the profit-oriented behavior of professional fundraisers into their democratic, social, and philanthropic environment.

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## Appendixes

### Appendix 1. Missing Data Statistics

	N	Mean	Std. Dev.	Missing	
				Count	Percent
FR profit (ln)	220	13.42	1.88	18	7.56
SIZE (ln)	238	14.79	1.68	0	0.00
SPUB	238	0.26	0.26	0	0.00
AGE (ln)	179	3.83	0.67	59	24.79
ORG eff	222	0.80	0.12	16	6.72
FR cap	159	5.00	1.00	79	33.19

### Appendix 2. Hierarchical Multiple Linear Regression on Imputed Data, Model Summary

	Model 1				Model 2			
	Unstand. Coeff. B	Std. Error	t	Sig.	Unstand. Coeff. B	Std. Error	t	Sig.
(Constant)	1.55	0.813	1.907	0.057*	0.452	0.893	0.506	0.613
SIZE (ln)	0.992	0.053	18.614	<0.001*	0.926	0.058	15.933	<0.001*
SPUB	-3.383	0.287	-11.78	<0.001*	-3.26	0.286	-11.393	<0.001*
AGE (ln)	-0.177	0.142	-1.252	0.212	-0.2	0.141	-1.419	0.158
ORG effect	-1.631	0.683	-2.389	0.017*	-0.824	0.71	-1.161	0.246
FR cap					0.304	0.093	3.285	<0.001*
<b>R square</b>	0.692				0.715			
<b>Adjusted R Square</b>	0.686				0.709			
<b>Std. Error of the Estimate</b>	1.056				1.016			
<b>R Square Change</b>	0.692				0.024			
<b>F Change</b>	128.514				19.131			
<b>df1</b>	4				1			
<b>df2</b>	229				228			
<b>Sig. F Change</b>	<0.001*				0.001			

Notes: Fundraising profit (ln) as a dependent variable, \* significant on a p<0.05 level;  
N = 234

**Appendix 3. Correlation Table, Original Data**

		<b>FR profit</b>	<b>SIZE (ln)</b>	<b>SPUB</b>	<b>AGE</b>	<b>ORG effect</b>	<b>FR cap</b>
Pearson Correlation	<b>FR profit</b>	1.00					
	<b>SIZE (ln)</b>	0.71	1.00				
	<b>SPUB</b>	-0.31	0.24	1.00			
	<b>AGE (ln)</b>	0.16	0.39	0.20	1.00		
	<b>ORG effect</b>	0.05	0.36	0.31	0.00	1.00	
	<b>FR cap</b>	0.37	0.18	-0.13	0.13	-0.30	1.00
Sig. 1- tailed	<b>FR profit</b>						
	<b>SIZE (ln)</b>	0.00					
	<b>SPUB</b>	0.00	0.00				
	<b>AGE (ln)</b>	0.04	0.00	0.01			
	<b>ORG effect</b>	0.30	0.00	0.00	0.48		
	<b>FR cap</b>	0.00	0.02	0.08	0.07	0.00	

Notes: Original data; N = 123

**Appendix 4. Correlation Table, Imputed Data**

		<b>FR profit</b>	<b>SIZE (ln)</b>	<b>SPUB</b>	<b>AGE (ln)</b>	<b>ORG effect</b>	<b>FR cap</b>
Pearson Correlation	<b>FR profit</b>	1.00					
	<b>SIZE (ln)</b>	0.67	1.00				
	<b>SPUB</b>	-0.26	0.29	1.00			
	<b>AGE (ln)</b>	0.19	0.35	0.13	1.00		
	<b>ORG effect</b>	0.03	0.31	0.29	-0.12	1.00	
	<b>FR cap</b>	0.39	0.23	-0.08	0.19	-0.24	1.00
Sig. 1-tailed	<b>FR profit</b>						
	<b>SIZE (ln)</b>	0.00					
	<b>SPUB</b>	0.00	0.00				
	<b>AGE (ln)</b>	0.01	0.00	0.04			
	<b>ORG effect</b>	0.31	0.00	0.00	0.06		
	<b>FR cap</b>	0.00	0.00	0.13	0.04	0.00	

Notes: Imputed data; N = 234

# CONCLUSION

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‘Creating a theory base that is changed by research, and a research base that is informed by theory is considered by many students of the professions to be the most important tactic in the professionalization process.’

(Bloland and Bornstein 1991)

The overall objective of this dissertation consisting of four research studies was an analysis of professionalization developments in the management and governing boards of nonprofit organizations (NPOs) to increase fundraising success.

According to Seaman and Young (2010), literature on organizational economics, and management in the field of nonprofit management still not enough corresponds and cross-fertilizes. This dissertation has shown that fundraising success is linked with organizational factors of management and governance. It contributes to the connection of organization-economic and management-oriented nonprofit research, and links organizational factors of management and governance with economic metrics by means of quantitative-statistical methods.

To open up these themes, interdisciplinary and multidisciplinary approaches were chosen and different theories and approaches from organization theory, sociology, management, and economics were applied, combined, and further developed. Results of the four studies can be found in Table 1.

## **1 Development of Two Constructs**

Two different ways were developed which describe and signal a stage of maturity or degree of organizational capability to raise private funds successfully.

First, theories and insights of organizational development were used to develop a maturity model of fundraising governance which is linked with fundraising success. Using the explorative factor analysis method, 21 items form five factors of fundraising governance: ‘boards’ activities’, ‘boards as symbolic decision makers’, ‘board as donor’, ‘fundraising strategic planning and controlling’, and ‘fundraising techniques’. The hierarchical clustering method was applied to the resulting factors, and 41 museums were obtained in the first cluster, 35 museums in the second cluster, and 21 museums in the third cluster. To map clusters to fundraising governance levels, the informative content of the factor mean scores were matched with theoretical evidence, and clusters were assigned such as ‘awareness’, ‘composition’, and ‘integration’. In the nonprofit sector, this approach of developing a model of maturity by using quantitative methods,

and linking the model with factors of fundraising success, has been implemented for the first time. Methodologically, the fundraising governance model further develops the mainly qualitative and theory-based concepts of dynamic organization life-cycle models by using explorative factor analysis and classification methods.

Second, a method for mapping organizational fundraising capability was developed by recourse to existing theoretical concepts of professionalism and organizational rationalization. These two theoretical concepts were combined because they are related in content. It is argued that professionals as collective actors have a profound effect on institutional environments; they 'exercise enormous influence on cultural-cognitive, normative, and regulative systems, collectively creating and warranting these systems of knowledge and control' (Scott and Davis 2003, p. 268). Vice versa, 'organizational principles, strategies and methods are deeply affecting most professional occupations and expert groups, transforming their identities, structures and practices' (Evetts 2010, p. 12). This insight results in a new formative index which indicates the state of development of organizational capability in raising private funds, what has not previously been explored in this form. The index of fundraising capability contributes to research in several ways: First, in contrast to (Hwang and Powell 2009), the roles of the governing boards are considered. Second, the study goes beyond previous research on rationalization and professionalization (for example, Organ and Greene 1981; Engel 1970; Montagna 1968). Here, the contribution of the research is that both the inclusion of professional fundraisers AND rationalized organizational structures are understood as components of organizational fundraising capability; besides, it is assumed that these two components promote each other.

## **2 Linkages with Fundraising Success**

According to the tradition of economic approaches, these newly developed constructs were each quantitatively tested for their linkage with variables of fundraising success, and both studies (Studies 1 and 4) were shown to be positively linked with fundraising success. In doing so, different statistical methods were chosen:

In the case of Swiss museums, a model for fundraising governance is proposed that reflects the level of an organization's success in fundraising: Linking the found clusters with donation income by means of analysis of variance showed significant results. Tests of the influence of control and intervening variables like annual operational expenditure, legal form, and museum category were negative. These results underpin the robustness of the proposed fundraising governance model. This procedure of linking a developmental maturity model with fundraising success is new in nonprofit research.

In the case of charities, a deductive approach was chosen. The positive relationship of fundraising capability with fundraising profit was first hypothesized and then proven by means of hierarchical linear regression (Study 4). Despite the influences of some relevant control variables like organizational size, organizational age, and organizational impact effectiveness, fundraising capability explains fifteen percent of the variance and is shown to be positively related to the profits a nonprofit organization achieves in fundraising. The full model has an explanatory power of 76 percent. Here, the relevance of fundraising capability, which is a new qualitative, managerial variable in an institutional economic framework, becomes evident. Viewed from the resource-based perspective of competitive advantage (Barney 1991), fundraising capability, due to its significant positive linkage with fundraising profit, provides a competitive advantage.

### **3 Use of Organizational Variables**

The organizational factors and items used in all four studies have to do with board governance, fundraising management activities, and the involvement of professionalized fundraisers. These variables used in a fragmented way in fundraising research at present (see 'Introduction'), here were integrated into an overall concept which may foster the understanding of an organizational behavior in operational fundraising. Because of the absence of professionalized fundraising staff in Swiss museums, Studies 1 and 2 focus on factors of board governance, and on fundraising management activities, mostly carried out by staff, volunteers, and the board. Studies 3 and 4, which deal with Swiss charities, concentrate on factors of strategic and process-oriented (rationalized) fundraising management and on how intensively organizations involve professional fundraisers in their fundraising activities.

#### **3.1 Board Governance Variables**

All study designs aim to ensure that the role of the governing boards was included in the reflections, as they are considered relevant with respect to fundraising (Hodge and Piccolo 2005; Greenfield 2009; Ostrower and Stone 2006; Green and Griesinger 1996; Cornforth 2001; Hung 1998).

In Study 1, factor analytical methods were applied to identify three governance factors, (1) indicating board activity in fundraising matters, (2) indicating the board as symbolic decision-maker, and (3) inclusion of donors and business representatives into boards. Study 1 shows that within the three maturity levels not all factors contribute toward fundraising income in the same way (Study 1). Study 2 analyzes the linkage of the three board governance factors with fundraising income by means of linear regression

analysis. In line with previous research it is confirmed that the inclusion of donors (Oster and Goetzmann 2003; Ostrower 2002) and business representatives (Anderson 2005; Griffin 2008) into boards is positively linked with fundraising income. Furthermore, evidence was found that, in accordance with resource dependency theory (Pfeffer 1972; Brown and Iverson 2004; Brown 2002), the composition of boards seems to matter in an important way. Additionally, no statistical evidence for the relevance of board-staff relationships concerning fundraising income was found. Therefore, fundraising decisions may as well be delegated to the museum staff. This applies to all museums except for those which are departments of the public administration. Here, the results indicate that there is a link between fundraising income and a board that is active in making fundraising decisions. The results of Study 2 also indicate that an active board does not contribute to fundraising success in a significant way, which contradicts what is found in NPO governance literature on that subject (Green and Griesinger 1996; Ostrower and Stone 2006).

In Study 3, data on similar governance variables as identified in Studies 1 and 2 were collected (here as single items) and were included as contingency variables. Here, the findings show that fundraising capability is positively related with all three board management variables prominent in nonprofit governance research, namely having donors on board, a board that is actively engaged in fundraising management and a board that includes management professionals. This is initial evidence that board activity and structure are not only related to organizational performance (Callen, Klein, and Tinkelman 2003; Callen, Klein, and Tinkelman 2010), but also to fundraising capability.

### **3.2 Fundraising Management Variables**

Fundraising management factors in Study 1 employ several items on the application of fundraising management practices and using explorative factor analysis two factors evolved: (1) strategic fundraising management and (2) the intensity of the use of different management techniques. The high median value of the fundraising management factor indicates that strategic management concerning the fundraising task may lead to success despite some skepticism about the applicability of strategic management in the cultural and art sector (Holmes and Hatton 2008; McCain 1992; Turbide et al. 2008). Concerning the use of 'fundraising techniques', in line with Sargeant and Kähler (1999), control and selection of each fundraising technique is recommended, as the factor median value on the third level of 'composition' is high and then decreases at the fourth level of 'integration'.

Key issues in developing the fundraising capability index in Study 3 were strategic management and process control: The index of a rationalized fundraising organization takes up the considerations from the first two papers and focuses on fundraising activi-



ties like strategic fundraising management, extended with implementation of a fundraising process design and division of labor within the nonprofit organization, either on the part of the board or on the part of management (Studies 3 and 4). In nonprofit research, the rationalization of activities within an organization is often dealt with under the heading of 'managerialism' (Meyer and Leitner 2011). Here, this term is deliberately not used because it often stands for 'being business-like' (Meyer and Leitner 2011) while it is explicitly meant to refer to the phenomenon of rationalization and to its indicators, derived from rational approaches of organization theory. The theoretical construct of fundraising capability expressed by a formative indicator does not anticipate that the isolated items are all significantly linked to the organization success (Jarvis, Mackenzie, and Podsakoff 2003). Therefore, these influences are not tested. Combined with the variables that indicate the degree of the involvement of professional fundraisers, several interesting linkages with fundraising success (see above, section 'two constructs') and other organizational variables (Study 3) like organization size, fundraising department size, voluntary engagement, growth strategy, board activity, and board composition (Study 3) were found.

### **3.3 Professionalization Variables**

Indicators of the impact of professional fundraisers as used in Studies 3 and 4 are derived from professionalism sociology.

In order to outline the situation of fundraisers in Switzerland and to answer the question of whether one can speak of 'professionalized fundraisers' in the course of the further studies (Studies 3 and 4), a preliminary study was undertaken to analyze the social status of the fundraiser in Switzerland. The study (see Study 3) showed that on the societal level, fundraising in Switzerland is an emerging profession which meets practically all of the criteria; however, several criteria are not fully developed. As argued here, some of the criteria mentioned will probably never be met and consequently, the fundraising manager will probably never be as socially accepted as a lawyer or a physician. Rather, like nonprofit manager (Chatterjee and Stevenson 2008) fundraiser will always be regarded as a 'semi-profession'. There are indications that the process of professionalization of the fundraiser in Switzerland further is continuing, but so far there is little research on this topic. This small but systematic study is one of the first of its kind in the fundraising sector. In further systematic, cross-national studies, the professionalization situation and dynamics could be detected and analyzed across countries.

Indicators of professionalization deduced from this preliminary research were used on the organizational level to measure the involvement of professional fundraisers in

charities, like qualification and pay, the involvement of fundraising consultants, and the relative size of the fundraising department. Furthermore, the study considers the influence of professional consultants onto the governing boards' decision, taking nonprofit specifics into account. As part of the construct of fundraising capability, important linkages to other organizational variables (Study 3) and to fundraising success were identified (see above, section 'two constructs').

#### **4 Nonprofit Market Behavior and Measures of Fundraising Success**

Basic assumptions of a model significantly influence the models' predictions. In both sectors, in the museum sector as well as in the charities sector, I concluded not to rely on the widely used fundraising efficiency measure and I agree with Song and Yi (2011, p. 172) that fundraising efficiency '...falls short on examining how closely organizations perform to its maximum potential in terms of raising private donations'. Consequentially, in the present studies it is concluded that, to be better able to map the free market behavior of NPOs, effectiveness-oriented performance measures such as donations income or donations profits are more suitable. In this context, a growth orientation of the respective organizations is assumed. Empirical evidence reinforces this assumption: For example, it is expected that around 15 percent of museums which do not operate in fundraising yet will take appropriate action in the next five years (Betzler and Aschwanden 2011). In the donation market of Swiss museums, which is less professionalized and has not reached its full potential by far, there is usually little or no reporting or controlling with regard to donation expenditures. As a consequence, an efficiency orientation in which the expenditures are set against the income cannot be observed. For these reasons, the use of fundraising efficiency and fundraising profit are shown to be not appropriate to use as a success scale, and therefore donations income is used as fundraising success variable in museums.

Concerning the Swiss charities, the situation is different. With respect to the Swiss charities, a steady increase in donations income supports the growth thesis (ZEW 2011, 2013). As members of the Swiss certification body for nonprofit, donation-collecting organizations (ZEW), the analyzed Swiss charities are better controlled, and fundraising expenses and incomes are well-reported. The use of the fundraising profit as a success variable has been found to be useful here because it represents a growth orientation while controlling costs. Fundraising profits are often viewed not as organizational outcomes but rather as input which is intended to be invested into charitable and social projects (Hansmann 1986). Study 4 has shown that this view is a misconception because the proportion that flows into the projects decreases with the amount of fundraising profits (Study 4, Model 1), or at least no effects are detected when fundraising capability is introduced (Study 4, Model 2). To maintain their original *raison d'être*,

Swiss NPOs should at least ensure that the proportion they give to their charitable and social projects is kept stable. Results of the studies suggest that organizational fundraising capability partly explains the differences in achieved fundraising profit of charities, but not the differences in fundraising efficiency. This points to a principal-agency problem (Jensen and Meckling 1976) because it seems to be a more important goal from the perspective of the NPO to maximize the profit from fundraising, rather than to minimize efficiency, in the interest of the donor. To shed more light on these issues, the individual goals of the fundraising departments should be explored.

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**Study 1:**

**Towards Fundraising Excellence in Museums — Linking Governance with Performance**

- Using an explorative factor analysis method, 21 items form five factors concerning fundraising governance are explored: ‘boards’ activities’, ‘boards as symbolic decision makers’, ‘board as donor’, ‘fundraising strategic planning and controlling’, and ‘fundraising techniques’.
- The hierarchical clustering method is applied to the resulting factors, and 41 museums in the first cluster are obtained, 35 museums in the second cluster, and 21 museums in the third cluster.
- To map clusters to fundraising governance levels, the informative content of the factor mean scores are matched with theoretical evidence, and clusters are assigned such as ‘awareness’, ‘composition’, and ‘integration’.
- The linkage of the found clusters with donation income shows significant results.
- Tests of the influence of control and intervening variables like annual operational expenditure, legal form, and museum category were negative. These results underpin the robustness of the proposed fundraising governance model.

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**Study 2:**

**Factors of Board Governance and Fundraising Success: The Composition of Swiss Museum Boards Does Matter**

- The clear separability of the factors ‘board’s fundraising management’ and ‘inclusion of donor and business representative on the board’, which is shown statistically by the high factor loadings, suggests that patrons and business representatives on boards contribute by giving money and/or using their networks to attract donors, and do not generally perform operative fundraising management tasks.
  - The study statistically confirms that the inclusion of donors and business representatives into boards is positively linked with fundraising income.
  - This is especially true for the museum’s typical nonprofit legal forms of ownership, namely the private association and the foundation.
  - The present results show that an actively operating board does not contribute to fundraising success in a significant way.
  - Furthermore, no statistical evidence is found for the relevance of board-to-staff relationships concerning fundraising income. This applies to all museums except for those which are departments of public administration. Here, the results indicate that there is a link between fundraising income and a board active in making fundraising decisions.
  - Due to control of the mediator variable ‘organization size’, the results
-

remain stable.	
(Continuation)	
<b>Study 3:</b> <b>Professionalism and Rationalization in Fundraising Management: A Contingency View of Fundraising Capability</b>	<ul style="list-style-type: none"> <li>• The preliminary study on the professional status of fundraisers in Switzerland shows that fundraising in Switzerland is an emerging profession which meets practically all of the given criteria; however, several criteria are not fully developed.</li> <li>• A correlation between the influence of professional fundraisers and the rationalization of fundraising activities is found.</li> <li>• The higher the income, the higher the fundraising capability</li> <li>• The bigger the fundraising department, the stronger the fundraising capability</li> <li>• No relationship is found to exist with organization age and low voluntariness.</li> <li>• Organizations that follow a growth strategy are positively linked with fundraising capability.</li> <li>• Fundraising capability is positively related to the three board management variables prominent in nonprofit governance research, namely having donors on the board, a board that is active in fundraising management, and a board that includes management professionals</li> <li>• It is shown that health organizations have significantly higher fundraising capabilities.</li> <li>• The full model has an explanatory power of 76 percent.</li> </ul>
<b>Study 4:</b> <b>The Impact of Organizational Fundraising Capability on Charities' Profits from Private Donations</b>	<ul style="list-style-type: none"> <li>• Fundraising capability is positively related to fundraising profit.</li> <li>• Organizational size is significantly positively related to fundraising profit</li> <li>• The share of public subsidies is negatively related.</li> <li>• Organizational age shows differences in the imputed and in the original dataset; therefore, it is recommended to further investigate the effects of organizational age on fundraising profit.</li> <li>• Organizational impact effectiveness is negatively related to fundraising profit in Model 1 but loses its influence when fundraising capability is introduced in Model 2. This is notable since fundraising capability seems to compensate for the effect that organization impact efficiency is reduced with higher donation profits.</li> <li>• Despite the influences of these relevant control variables, fundraising capability explains fifteen percent of the variance.</li> <li>• The full model has an explanatory power of 78 percent.</li> </ul>

Table 1: Detailed Summary of the Results of Studies 1 – 4

## 5 For Practitioners

These studies can be a useful resource for practitioners in a number of ways.

### 5.1 Museums

In the field of fundraising management in museums, Studies 1 and 2 provide some valuable insights. By applying the fundraising governance model (Study 1), museums are better able to determine their individual fundraising governance status as well as where they stand in relation to other museum organizations. Furthermore, the defined factors and their characterizations give hints for further organizational development practice. If museums aim to reach the level ‘integration’, and thus increase fundraising income, results of this research project suggest that donors should be included in boards, that fundraising techniques should be used moderately and that strategic planning and controlling measures for fundraising should be implemented. Results further suggest that boards should actively (not symbolically) make decisions based on the proposals prepared by fundraising staff. Board activity should be moderate and coordinated with the engagement of professional staff. According to our considerations, fundraising income can be used as a sufficient success indicator concerning this model for Swiss museums. Because of its proven robustness, the proposed fundraising governance model can be applied by all different museums organizations regardless of organizational size, legal form, or museum category.

The results of Study 2 emphasize the importance of board composition with regard to fundraising income. For management practice, this means that an effective fundraising governance of museums may be achieved through a purposeful management of the board composition, for example, through a sensitive setting of organizational arrangements (Paulus and Lejeune 2012) and a careful board composition, including donating stakeholders and business representatives.

### 5.2 Charities

In the field of fundraising management in charities, Studies 3 and 4 tell practitioners more on how much and to what extent the fundraising capabilities of an organization are developed or should be developed. The fundraising capability index developed in Study 3 might be an important clue as to how far the ability and capacity to acquire funds is developed at the organizational level, that is, to find out what scope it has. This index could be used as an internal reference point or benchmark compared to other organizations, as is the case with the reputation monitor (Sarstedt and Schloderer 2010). This study forms the basis for a computer-based monitor-tool in which each organization

could read their own level of fundraising capability, and then use the monitor as an advisory tool.

Study 4 shows that it does, in fact, pay to invest in the development of organizational fundraising capability. The results shed light on how collecting private donations functions: a stronger involvement of fundraising professionals and a rationalization of fundraising activities result in higher profits, despite investment costs such as for training, staff, or consultancy services. Organizations that want to raise their profits should strengthen their fundraising capability and improve various aspects of their fundraising organization: It is recommended that they involve professional fundraisers as paid staff in management or as paid experts. Further, they should ensure that their staff are trained and qualified to handle their responsibilities and recruit more volunteer fundraising experts for their boards. Concerning rationalization, charities could implement a process design and plan their fundraising activities strategically; they might also create a division of labor with a fundraising committee at the board level.

## **6 Data Limitations**

As was the case in earlier studies (Jacobs and Marudas 2010; Krishnan, Yetman, and Yetman 2006), the collection of fundraising data for the purposes of this project was not an easy task. In the case of the museums this was especially difficult, particularly with regard to scale variables such as operating income, fundraising revenue, and fundraising budget. For example, only 52 of the 98 museums that actively raise funds have reported their fundraising expenses at all. Furthermore, museums expressed fear that if they disclose their overall income from private donations, public authorities might realize that they are in a position to acquire donations and consequently decide to shorten public subsidies. By comparison, the data situation with ZEWO organizations was far better. However, even in the case of the charities data provision was initially a matter of confidence because the data are not in the public domain. Since ZEWO was involved in designing the questionnaire, it was not as detailed as planned. Since it was only able to work with anonymous records, it was impossible to follow up on individual organizations. I hope that research such as this contributes to creating more trust and enhances the collaboration between the research community and organizations like ZEWO and the Swiss Museum Association in future. For a closer evaluation of fundraising performance, the Swiss Museum Association would be advised to consistently collect data on fundraising income as well as on fundraising expenditure. Alternatively, information gathered by the self-assessment of the achievement of fundraising targets would be an indicator of the degree to which the targets have been achieved since fundraising success is whatever museums judge it to be (Anderson 2004). As for the chari-

ties, is to be hoped that an open and transparent handling of donations and expenditures will prevail.

## 7 Suggestions for Further Research

The results of the studies should be of course validated by comparisons between countries and subsectors. Also it might be worth-while to carry out long-term studies and incorporate the time lag in the effect of management and governance variables. It also may turn out to be useful to use the expenditure from the previous year to better reflect the investment lag in the model. In these ways, the dynamics of the 'fundraising governance maturity' and the 'fundraising capability' could be analyzed more closely.

The fundraising governance model could be developed further as the present study has an explorative, museum-specific character. More empirical evidence provided by studies in other countries and on other nonprofit sector segments with carefully collected data on fundraising expenditures, income, and fundraising governance items could verify the relevance of the proposed fundraising governance model. Additionally, the explanatory power of the model, which now explains approximately 30 percent of the variation (adjusted $R^2$ = 0.292), could be raised by identifying and including more factors relevant to fundraising governance, such as the influence of external advice, the number of fundraising staff, or the number of trained fundraisers.

Study 2 shows the relevance of incorporation private donors and business representatives into museum boards. The motives of private donors and business people, and their willingness to produce social benefits should be more closely explored in qualitative studies. What are their specific contributions? Museums have specific supporters. They are much in favor of working closely with patrons, who are elite donors (Ostrower 2002). This is a very special type of donor, their specific motives and willingness to produce social benefits could provide further insights into the financing of museums. Moreover, the role of collectors and collector networks as providers of exhibits should be further analyzed. Furthermore, in this study it is interesting to see that while structural factors like board composition lead to higher donations in museums, an actively operating board does not. One possible museum-specific explanation is offered by Griffin, who suspects that an active museum board that performs the fundraising task '... may not be familiar with appropriate professional fundraising strategies [...]' (Griffin 1991). Similarly, Holmes and Hatton (2008) refer to the low status of management and targeted steering in general and call for more professionalization of the museum organization. It would be interesting to take the research on professionalization and rationali-

zation undertaken in the charities and continue it in the museum sector to be able to examine possibilities and limitations in professionalization-skeptical organizations.

Regarding the studies on fundraising capability, more in-depth-studies of professionalization and rationalization are needed to find out more about (1) the mechanisms of the involvement of professional staff and organization, and (2) the causal relationships between fundraising capability and fundraising profit. Perhaps the application of clustering methods and the development of a fundraising capability maturity model (Study 1) could bring more insight into the interplay of these different factors. Furthermore, more information would be useful on the driving forces of building up fundraising capabilities: Is the development of fundraising capability initiated within the organization, or triggered by developments in the fundraising scene, leading to institutional isomorphism (DiMaggio and Powell 1983)? Faulk (2011) has found that grant-making foundations play an important role in the professionalization of a nonprofit organization. This evidence could be verified using the ZEW data. Chen (2009) found that the U.S. watchdog organization Better Business Bureau (BBB) has a positive impact on donation behavior. Do watch dog organizations also have a significant positive impact on fundraising capability? A comparison between ZEW member and non-members might provide interesting insights. Research in Study 3 indicates that volunteer forces might still play an important role and previous research confirms that volunteers are quite strongly committed to fundraising (Hager, Rooney, and Pollak 2002). This issue could be investigated more closely in subsequent analyses. The findings further show that fundraising capability is positively related to growth and consolidation strategy but not to focusing strategy. Thus, it would be interesting to monitor whether donations of organizations with a growth strategy rise in subsequent years, or whether the investment into the build-up of fundraising capability levels out this effect. Furthermore, it would be interesting to find out how fundraising capability is related to diverse donor channels like legacies, mass donations, or gross donations. To be able to apply fundraising capability as a measuring tool, it is recommended to undertake further adjustment and validations of the index scales.

## **8 Concluding Remarks**

Swiss museums and charities are currently situated in a growing market for donations. However, this empirical fact should not generally be taken as a basic assumption. First, the market for donations is systemically limited by the mixed financing of organizations. Numerous studies on the interaction of public and private funding sources (for an overview, see Tinkelman 2010) show that NPOs are mostly mixed financed. Concerning the arts sector, for example the study of Borgonovi and O'Hare (2004) suggests that foundations do not want to be essential for the survival of institutions. Conse-



quently, it could be interesting to analyze the role of fundraising capability in terms of the crowding-out hypothesis: Does high fundraising capability enhance the crowding out of public subsidies? Second, there are also limits to the amount of donations on the market. We still do not know how much fundraising capability we have to develop in order to reach the ceiling of the donor market. Here, it would be interesting to simulate this situation statistically.

Furthermore, the assumption of the competitive actor on the free market is recommended to be renewed and the impact of the trend to partnerships and networks onto professionalization and rationalization should be considered. Most research on nonprofit cooperation deals with public-nonprofit partnerships (Helmig and Boenigk 2012; Brinkerhoff 2002; Van Ham and Koppenjan 2001), and public business partnerships (Seitanidi and Crane 2009), but here it would be interesting to look at cooperative actions amongst NPOs. In the field of fundraising, cooperative market behavior can be found, for example, in emergency aid campaigns and other pooled fundraising activities. It would be interesting to analyze effects of cooperative work with respect to fundraising capability. Are there mimetic processes of fundraising behavior? Or does cooperative fundraising lead to a development of expert niches?

There is legitimate criticism of the pure economic view on nonprofit organizations and the rational economic behavior of actors involved (Eikenberry and Kluver 2004; Eikenberry 2009). ‘Economists posit that NPOs are less prone to maximize net earnings or market share than FPs; what they do maximize is debated (Hansmann 1987, DiMaggio 1987)’ (DiMaggio and Anheier 1990). Frumkin and Kim (2001) address the question of whether operational efficiency is recognized and rewarded by the private funders that support nonprofit organizations in fields ranging from education to social service to arts and beyond. Looking at the administrative efficiency and fundraising results of a large sample of NPOs over an 11-year period, they find that nonprofits that position themselves as cost efficient — reporting low administrative to total expense ratios — fared no better over time than less efficient appearing organizations in the market for individual, foundation, and corporate contributions. From this analysis, they suggest that economizing may not always be the best strategy in the nonprofit sector. On the other hand, the present research suggests that the fundraising management area, in particular, functions more and more as a driver of economic-rational behavior and is becoming an area where processes are standardized and fundraising success is benchmarked by watchdog organizations and states (see chapter ‘Introduction’). Nonprofit organizations are now being challenged to carefully integrate the profit-oriented behavior of professional fundraisers into their democratic, social, and philanthropic environment.

In the nonprofit research and practitioners scene, there is also some substantive criticism of all kinds of organizational development models, professionalization and rationalization, and on the measurement of fundraising performance. The cost of additional administrative staff could rise, and publicizing great management skills could lead to negative publicity (Hunziker 2011). Too many advertising campaigns could lead to donors feeling coerced and might be interpreted as a waste of funds (Hunziker 2011). Processes of professionalization and rationalization in voluntary organizations might seem as if they are turning their backs on their members, and the members' actions are shifting outside the NPOs in non-structured, time-limited forms of organization, like campaigns, and initiatives (Papakostas 2011). As a result, nonprofit organizations 'routinize their charisma' and uncouple from real organizations' essence (Papakostas 2011). Through a change of norms and values induced by professionalization and rationalization, a nonprofit organization's philanthropic mission may shift towards profit orientation (Steinberg and Weisbrod 2005; Valentinov 2011) and this may reduce the intrinsic motivation of the stakeholders (Deckop and Cirka 2000). On the contrary, however, other authors state that nonprofit organizations are inconceivable today without modern management (Lubove 1965; Drucker 1990). The challenge in nonprofit management will be to integrate professionalization, rationalization, and value-based, philanthropic, intrinsically motivated action to develop nonprofit-specific *and* effective organizational capabilities. This consideration opens a wide field for further research. To explore the limits of professionalization and rationalization, for example, it would be interesting, to link organizational reputation, the degree of mission-orientation or intrinsic motivation for fundraising with organizational fundraising management capabilities. The epistemic community is invited to further approach these questions.

In conclusion, this dissertation has contributed to the connection of economic and management-oriented nonprofit research. Much emphasis has been given to a close link with existing theories and approaches, such as organizational development, professionalism sociology, rationalist organization theory, resource dependency, contingency approach, and organizational economics. New constructs like the fundraising capability index were designed and existing methods of organizational development transferred to the fundraising field, like the fundraising governance model. The results of these studies themselves may contribute to further professionalization, and to more successful fundraising for a better world.

## Tables

Table 1: Detailed Summary of the Results of Studies 1 - 4 .....	169
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This dissertation project is cumulative in nature, consisting of four research projects on fundraising management, all of which deal with the development towards professionalization of management and board governance in order to improve the effectiveness of fundraising. To open up these themes, different theories and approaches from organization theory, sociology, management, and economics were applied, combined, and further developed. In particular, two different ways were developed which describe and signal a stage of maturity or degree of organizational capability to raise private funds successfully.

The object of investigation of the first two research projects is Swiss museums, while the other two deal with Swiss charities. The data for the studies on Swiss museums were collected in cooperation with the Swiss Museums Association (VMS), the data on Swiss charities were collected in collaboration with the ZEWO Foundation, the Swiss certification authority for nonprofit organizations collecting donations. For quantitative data analysis, various statistical methods were used, like clustering techniques and hierarchical multiple regression analysis.