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## **Financial And Non-financial Factors Motivating Individual Donors To Support Public Benefit Organizations**

### **Abstract**

*This study is aimed at determining how the financial data of public benefit organizations (PBOs) affects donations received by them and if the donors use financial and non-financial information in order to donate. In order to achieve our aim we used different methods of research: quantitative research (econometric model and survey) and qualitative research (laboratory test). The research allowed us to draw the conclusion that Polish donors make very limited use of PBOs' financial statements in the donation process and that non-financial information plays greater role for donors in making decisions to give charitable donations. The most important information is the organization's goals and descriptions of its projects. At the same time, many donors stated that they donated under the influence of people they knew. This article fits into the scope of world research on PBOs and uses the concept of civil society.*

**Keywords:** *Public Benefit Organisations, Performance measurement, donors*

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## 1. Introduction

The focus of most accounting studies undertaken in recent years has focused on the quality of business profits and the dependence of firm's economic results on selected variables. The studies usually concern large firms – whose data is more readily available - or small and medium firms whose importance for national economies has been acknowledged in many reports prepared by European institutions, research organizations, and scientists all over the world. More recently, the scope of the studies has been extended to include public sector entities and their reporting. Charitable organizations fall outside these categories and, unlike them, have not attracted broad-scale studies on their performance and the volume of their activity. However, their real importance for the economy (represented by the volume of funds they control) calls for monitoring their operations and for developing indicators to measure their performance. Public benefit organisations (PBOs) have mostly non-financial purposes and serve the general public or individuals. Their activities are frequently funded from large sums of money offered by individual donors.

Poland is a country with specific history with respect to charitable organizations. During the inter-war period (between the First and Second World Wars) there were approximately three thousand Foundations and ten thousand Associations operating in Poland (Wawrzyński 1997, p.18). After WWII almost all of them disappeared, because private charitable organizations were viewed and treated as uncontrolled social movements and dangerous for the socialist system (Archewska 2007; 2009). Most of present charitable organizations in Poland were established in the 1990s. Therefore the history and experience of current Polish PBOs is much shorter than in other countries such as Great Britain or United States. At the same time however, the accounting and reporting requirements for Polish PBO's are comparable to other countries.

Moreover the social environment in which charitable organisations operate in Poland is also specific. The social activity of Polish citizens nowadays remains very low due to the socialist legacy. Civil society practically does not exist in Poland, and 80% of Polish citizens admit that within the last year they were not socially engaged in any voluntary activity or work for the common good or for people in need (Kinowska 2012, p. 4). The forty years of a communist regime resulted in a lack of social trust towards government and its agencies, as well as in demanding approach towards the state and other citizens.

The reluctance of Polish citizens toward policy and government adversely affects their attitude towards public benefit organisations collaborating with local authorities and financed by grants and subsidies. This situation can lead to a dysfunctional dependence. Thus it is particularly important nowadays in

Poland to provide transparent mechanisms of financing the “third sector” as well as diversification of its sources of finance. However, at the same time Polish inhabitants were encouraged, by the Act of Public Benefit Activity and Volunteering (2004) to take part of the responsibility for the social policy of the government. They can donate 1% of their personal income tax, i.e. public money, to their chosen philanthropic organization. This mechanism of 1% was established to guarantee a more effective way of distribution of public money for charitable purposes. The government decided that citizens know better what is most needed and important for their community and for society as a whole. However, the question is if they can really make meaningful choices among PBOs and if they use any criteria for their assessment of such organizations.

A financial analysis of PBOs shows that their incomes differ considerably. This leads to the thesis that donors use specific criteria to choose the charity they wish to fund. Some criteria can be derived from the PBOs’ financial statements, while other criteria are non-financial. The latter category includes, for instance, the reputation of the charity or of its leaders or advocates, and donors’ own life experiences or habits.

This research aims to determine what information can increase the creditability of PBOs and what factors encourage donors to donate money after so many years of diminishing the meaning of charities in the eyes of society. The research will cover financial factors, particularly the effect of information contained in PBOs’ financial statements and Websites on the decisions of individual donors. The econometric equations and analyses applied in the course of our research is aimed at determining whether donors offering donations use and analyse the financial information in making their decisions. The collected statistical data will also help to determine if there are other factors that motivate donors, including non-financial ones. The equation estimates will be supplemented with information derived from a survey of individual donors and a laboratory experiment designed to strengthen the conclusions.

## **2. The role of financial statements in evaluating PBOs’ performance**

Considering that public benefit organizations do not have investors, they must use grants and donations to fulfil their charitable objectives. However, they cannot guarantee that they will deliver what they promise. They can only declare that they have the intention, commitment, and determination to help their target group of beneficiaries. Because PBOs frequently raise huge sums of money from individual donors, the nature and usefulness of their financial statements for evaluating their performance and as documents reflecting their true financial

standing sparked animated discussions at the turn of the 20<sup>th</sup> and 21<sup>st</sup> centuries. Notwithstanding the different scientific perspectives, almost all accounting specialists (see Noraini et al. 2009) agree that the PBOs' financial statements are needed both by government institutions for monitoring and control purposes, and by wide groups of stakeholders to make their decisions having the necessary insight into their operations.

A donor can learn, from a PBO's financial statement, about the amounts and ways of distribution of its resources serving its charitable objectives, evaluate management quality and development prospects, and assess whether the organization has enough resources to go on. He or she can also see its liabilities, where the funding comes from, and whether it is effectively spent. Therefore, the financial statements disclosed by PBOs may help donors choose which PBO they wish to support and gain certainty that it is efficient and working towards its goals.

Polish charities must act in compliance with the amended Public Benefit Organization and Volunteerism Act of 22 January 2010. While introducing sanctions against PBOs for failure to file and publish activity and financial statements on due dates, the act missed the opportunity to impose relevant qualitative standards, thus contributing to the heterogeneity of the statements. Particular organizations publish different ranges of financial information and even the same organization may inconsistently present the structure and amount of information. Other qualitative standards applying to financial statements, such as those provided within the conceptual framework developed and approved by the IASC in 1989, e.g. comprehensibility and usefulness, are not met either. Some financial statements are incomplete, for instance the additional information section shows only how assets and liabilities were valued; while others are limited to the balance and a profit and loss account in a version used by business organizations (Waniak-Michalak 2010).

### **3. An overview of empirical studies on factors motivating donors to support a public-benefit organization**

Factors that motivate donors to support PBOs are studied particularly often by researchers in the US and Western Europe. One of the first UK studies, involving a group of 130 respondents, found that PBOs' stakeholders appreciate both financial and non-financial performance (Hyndman 1991, pp. 69-82).

Khumawala and Gordon (1997) carried out an experiment in which students, treated as prospective donors, were asked to rank financial information by its impact on the decision to donate.

A range of studies have confirmed that donors are more willing to offer funds if they know the organization and have been informed about its mission, objectives, and major financial data (Gordon et al., 1999). Parsons (2007) also has concluded that some donors, having been given financial information in advance, would be more willing to make a donation than those who have not received such information.

Many studies seek to determine the relationships between business variables presented in PBOs' financial statements and the actual amounts of donations they receive. Parsons (2003) has suggested that the key factors motivating donors to give money to a public-benefit organization are organizational efficiency and sustainability. Parsons defines PBO's efficiency as the share of resources it allocates to its charitable objectives. Technically, the indicator shows the average proportion of donations spent directly on the intended beneficiaries. Hyndman (1991) and Khumawala and Gordon (1997) agree that donors are very interested in the ratio between charitable spending and the organization's total expenditure, and that they are more willing to support these organizations where the ratio is the highest. In order to measure PBOs' efficiency, studies use variables obtained from their financial statements, such as the already-quoted ratio between an organization's charitable spending and total expenditure (Posnett & Sandle 1989; Callen 1994; Tinkelman 1998), the ratio between total expenditure and the spending on charitable programmes and research activities, and a PBO's administrative costs as a proportion of its total expenditure (Frumkin & Kim 2001, Tinkelman & Mankaney 2007).

The sustainability of a public-benefit organization is defined by Parsons (2003) as its ability to continue on even if faced by a shortage of funds. This quality builds on the 'on-going concern' principle commonly used by accountants in the business sector. Parsons and Trussell's study (2008) has confirmed that sustainability is a determinant in the amount of donations an organization can raise, because donors prefer viable organizations, even if they have temporary cash problems (e.g. during an economic crisis). The sustainability measures that are the most frequently found in the literature are an organization's net assets as a proportion of its total income (Trussel & Greenlee 2004), an income concentration indicator calculated as a ratio between donations and subsidies raised by the organization and all its income (Parsons & Trussel 2008), and an indicator similar to the gross margin indicator used by enterprises.

Greenlee and Trussel (2000) used financial indicators calculated on the basis of a PBO's financial statements to develop a model predicting its vulnerability. According to the authors, the model can serve stakeholders estimating the performance of a Foundation, particularly those who are considering whether or not to support it financially.

A study performed by Khumawala, Parsons and Gordon in 2003 led them to the conclusion that donors preparing financial statements for their own organizations (e.g. enterprises) were more inclined to offer funds to a public benefit organization characterized by a lower ratio of total expenditure to funding raised.

Another factor that prospective donors look at is a PBO's reputation. However, this category of organization is very difficult to evaluate with respect to the quality of their "final product". Studies assume therefore that the quality and prestige of a PBO can be measured by its age (Trussel & Parsons 2007), the value of assets held (Tinkelman 1998), or the amount of subsidies and grants it can raise (Tinkelman 1998).

Andreoni and Payne (2003) have demonstrated though that public benefit organizations raising more grants tend to lose interest in pursuing other sources of funding, and as a consequence 'other donors' account for a smaller proportion of their incomes.

A 2010 study on Polish PBOs which used the *Charity Navigator* indicators to evaluate their performance found a correspondence between the evaluation outcomes and the amounts of donations raised by the organizations (Waniak-Michalak 2010). However, other researchers found that the ratings of the *Charity Navigator* were not useful for donors (Szper & Prakash, 2011). They concluded that the changes in ratings were not associated with the primary revenues of the charities. The interviews with charities' managers in the state of Washington revealed that the managers do not value the ratings at all. They believe that other factors influence donor support for non-profits, like familiarity, word-of-mouth or the visibility of the non-profit in the community (Szper & Prakash 2011)

In the studies on factors motivating donors to support a public-benefit organization, the paper of R. Bekkers and P. Wiepking (2011) is especially noteworthy. It contains a broad overview of the academic literature on charitable donations, based on over 500 articles. The authors identify eight mechanisms driving charitable donations, i.e. awareness of needs, solicitation, costs and benefits, altruism, reputation, psychological benefits, values and efficacy. In an earlier article Bekkers and Wiepking (2011a) also found evidence on the relationship of donating to religion, education, age and socialization of donors. Moreover, other researchers state that the motives for charitable donation depend on the situation and on whether the organization is "the main" charity, the "second choice", or even the accidentally chosen charity (Bennet 2012). Ireland (1969) stated that "[a]ll individuals serve their own interests" even if they have philanthropic motives and take philanthropic actions. There are usually personal reasons underpinning a donor's behavior.

However, the above-mentioned researches do not give answers with respect to *how* individuals choose a particular charity. We are aware of the fact that the motives for charitable giving influence the final choice of which charity

to choose. The research presented in this paper is looking for the factors which push individuals in Poland to support a particular organization, and at the same time for the factors influencing the financial results of the PBOs, in the light of history of Poland (and Polish PBOs) in the twentieth century.

#### 4. Methodology

In our study we used two types of research: quantitative and qualitative. The purpose of the quantitative research presented below is to establish what financial indicators had an effect on the revenue of PBOs and what other motives existed for making donations. In this process an econometric model as well as survey are used.

An econometric model is used to assess how information presented in PBOs' financial statements determines the choices of individual donors. The analysis is guided by the following question: "Do donors use PBOs' financial information and analyse it in deciding whether to donate?". The statistical data collected for the research should also allow for drawing conclusions about the possible existence of other factors influencing donors. In the model, the financial motivators are represented by variables derived from PBOs' financial statements.

The study covers the years 2006–2010 and the sample consists of 84 public benefit organizations based in Poland. We chose those organizations that received at least 50% of entire 1% contributions from taxpayers' income tax for the year 2009, because we started the research in 2010, adding new data and explanatory variables in the following years to learn more about the motivations of donors supporting public benefit organizations. We assumed that the organizations are those that obtain a significant value from donations. Moreover, the financial statements of PBOs that received small amounts of donations and grants are of poor quality and do not contain all the necessary information.

The equations presented in the paper have been estimated using the 2010 data, because the 2006–2009 results have already been discussed in earlier articles. It is worth noting, however, that the recent findings and those obtained previously are consistent. The current sample of PBOs represents only a fraction of their total population in Poland, and some of them raise donations and grants of very high value (e.g. 10M Euro). The equations have been estimated using the Eviews software package. We used the OLS method in building our model. The research hypotheses serve to identify the determinants of donors' decisions. Each of them has been provided with explanatory variables representing the respective determinant. All explanatory variables in the model are lagged, because donors evaluate organizations and choose the one they want to support based on the previous year's information. An important element of each equation

is the regression coefficient, which indicates how much the explanatory variable will change following a change in the respective independent variable. The direction of the relationship between particular variables indicated by the sign of the appropriate regression coefficient is also significant.

The survey is aimed at verifying and completing the results received from the estimation of equations and to determine what other financial and non-financial variables donors consider important in choosing a charity to support. In this case, a random drawing procedure was prevented because the personal data protection act limits access to donors' personal data. Therefore, the findings of this survey cannot be generalized to the entire population of donors, but they can serve as signposts showing the direction for future research. The survey was conducted with 250 persons: university students and employees.

The results obtained from quantitative research inspired us to follow it up with qualitative research. Thus, a laboratory experiment was run with 32 participants.

## **5. Results of the quantitative research**

The first research hypothesis (Hypothesis 1) is based on the study conducted by Trussel and Parsons (2007), who analysed a number of financial variables in terms of their impact on the amounts of grants received by over 4,000 public benefit organizations in the USA. Their study also summarizes all earlier attempts to quantify the effect of PBOs' financial statements on donors by considering the amounts of donations from four perspectives: PBOs' organizational efficiency, sustainability, reputation, and information disclosed to donors. Our hypothesis is formulated as:

*Hypothesis 1: The value of financial donations received by public benefit organizations from individual donors depends on the disclosure of specific information in their financial statements.*

This hypothesis was tested by performing multiple estimations of an equation where the explained variable is the amount of financial donations received by PBOs from individual donors in a year (FINDON\_Y). The explanatory variables were selected from the aforementioned Trussel and Parsons' study (2007) representing four factors determining the amounts of donations: organizational efficiency, sustainability, reputation and disclosed information.

Organizational efficiency is measured using the following explanatory variables:

- charitable spending as a proportion of PBOs' total expenditure (variable PROG); the regression coefficient is expected to have a positive sign, because donors like public benefit organizations characterised by a greater share of charitable spending in their total expenditures;



- PBOs' administrative costs as a proportion of total expenditure (variable ADMIN); the regression coefficient is expected to have a negative sign, because donors reluctantly contribute to organizations with a large share of administrative costs in total expenditure.
- sustainability is explained through the following variable:
- a gross margin rate (variable MARGIN); the regression coefficient is expected to have a positive sign, because donors believe that PBOs where the rate is high perform better and are more sustainable.

The reputation of the sampled PBOs is assessed based on the following variables:

- the gross value of assets (variable ASSETS); the regression coefficient is expected to have a positive sign, because this measure of organization's potential shows its ability to accomplish its objectives as well as its operational capabilities,
- the amount of subsidies and grants obtained by PBOs (variable GRANTS); the regression coefficient is expected to have a positive sign, because many individual donors are of the opinion that financial support offered by government agencies and institutions confirms that the recipient is trustworthy.
- Donors' knowledge is measured with the following variable:
- amounts spent by PBOs on advertising and promotion to attract more donations and gifts (variable FUND); the regression coefficient is expected to have a positive sign, because advertisements create a positive image of organizations and attract new donors.

All explanatory variables in the model are lagged, because donors typically evaluate organizations and choose the one they want to support based on their previous year's statements.

To test Hypothesis 1, the following equation is estimated:

$$\text{Equation 1: FINDON\_Y} = C(1) + C(2)*\text{ASSETS} + C(3)*\text{GRANTS} + C(4)*\text{MARGIN} + C(5)*\text{PROG} + C(6)*\text{FUND} + C(7)*\text{ADMIN},$$

where:

The explained variable:

FINDON\_Y - the amount of financial donations (in PLN) that a PBO received from individual donors in the previous year.

Explanatory variables:

ADMIN – PBOs' administrative costs as a share of their total expenditures,

PROG – charitable spending as a proportion of total expenditure,

MARGIN – the gross margin rate,

FUND – PBOs' advertising and promotional spending,

GRANTS – the amount of subsidies and grants received by PBOs,

ASSETS – the value of PBOs' assets.

Equation 1 estimates obtained using the above variables for the years 2006–2010 are statistically unsatisfactory, because the analysis of t-Student statistics shows that the regression coefficients are statistically insignificant for all variables but ASSETS and GRANTS. This means that PBOs' sustainability, efficiency and the disclosed financial information have little effect on donors' choice of a particular PBO. Financial indicators in PBOs' statements that correspond to these three aspects cannot be considered as a factor having influence on how much PBOs will be able to raise in donations. This is in contrast to the results of Trussel and Parsons' study (2007), due to the fact that Poland is a country with specific history of charitable organizations. Individuals in Poland may be convinced that the information published by the PBOs is prepared for authorities, not donors, and thus they may consider it not important. However this may be consistent with the theory of civil society. The Polish individual donors may choose the organizations that are visible in the community and whose actions are appreciated, not necessarily those with satisfactory financial statements.

Although the estimates of MARGIN, FUND, PROG, and ADMIN are not satisfactory because the variables have low significance, the estimation of the equations suggests that the amount of grants (GRANTS) received in the previous year and the value of PBOs' assets (ASSETS) do have an effect on the total amount of financial donations. According to Tinkelman (1998) and Trussel and Parsons (2007), these two variables represent a PBO's reputation. We assumed therefore that the reputation of PBOs can be defined as the quality and prestige of the organization measured by its age (the older the organization the higher the degree of trust in it, resulting from the assumption that it is a PBO with greater experience – however this was not valid in the cases of Polish PBOs which are relatively young), the value of assets held (the bigger organization the higher the degree of trust in it), and the amount of subsidies and grants it can raise. Therefore, Hypothesis 2 is formulated as follows:

*Hypothesis 2: The reputation of a PBO motivates individuals to support it financially.*

$$\text{Equation2: FINDON\_Y} = C(1) + C(2)*\text{ASSETS} + C(3)*\text{GRANTS},$$

where:

The explained variable:

FINDON\_Y – the amount of financial donations (in PLN) that a PBO received from individual donors in the year.

The explanatory variables:

GRANTS – the amount of subsidies and grants (in PLN) that a PBO received in the previous year;

ASSETS – assets (in PLN).

The estimates of equation 2 are presented in Table 1 below.

**Table 1. The results of estimation of equation 2**

| <b>Dependent Variable: FINDON_Y</b> |             |             |        |
|-------------------------------------|-------------|-------------|--------|
| Sample: 1                           |             |             |        |
| Included observations: 64           |             |             |        |
| <b>Year 2010</b>                    |             |             |        |
| Variable                            | Coefficient | t-Statistic | Prob.  |
| C(1)                                | -1012981.   | -1.020113   | 0.3118 |
| ASSETS                              | 0.640527    | 11.73543    | 0.0000 |
| GRANTS                              | -0.375821   | -2.927023   | 0.0048 |
| R-squared                           | 0.697035    |             |        |
| F-statistic                         | 69.02139    |             |        |
| Prob (F-statistic)                  | 0.000000    |             |        |

Source: E-views estimates.

According to the t-Student statistics (t-stat), the estimates of GRANTS and ASSETS are statistically significant, (see the probability measures in the t-Statistic column in the Table). However, the regression coefficients are consistent with the assumptions only for ASSETS. The estimation of equation 2 shows that an increase in a PBO's assets (ASSETS) makes individual donors more willing to support it with donations. According to the estimation results, PBOs with a smaller resource of subsidies and grants (GRANTS) draw more financial donations from individual donors. This finding reveals a discrepancy between the regression coefficients and the assumptions. It is, however, consistent with the results obtained by Andreoni and Payne who studied US-based non-profit organizations (2003). They observed that an increased value of grants tended to reduce the amount of funding raised from other sources. Moreover, this situation can be also caused by already-mentioned reluctance and distrust of Polish citizens toward public benefit organisations collaborating with local authorities and financed by grants and subsidies. PBOs seeking funding such as subsidies and grants, are regarded as unreliable by Polish individual donors. This is again in contrast to the results of Trussel and Parsons' study (2007), where grants and subsidies were treated as reputation variable, based on the argument that financial support offered by government agencies and institutions confirms to individual donors that the recipient is trustworthy.

According to the outcomes of equation 2 testing Hypothesis 2, the equation offers a relatively high level of explanation – the determination coefficient (R-squared) for 2010 is 0.69. Likewise, the Fisher-Snedecor statistics (F-statistic of 69.02 in 2010) indicates that at a significance level of 0.001 (Prob

(F-statistic)=0.001) the null hypothesis should be replaced with an alternative hypothesis according to which the total impact of all explanatory variables in the equations on the endogenous variable is statistically significant.

Overall, the equation estimates confirm only part of Hypothesis 2. The important factor that makes a public benefit organization attractive for individual donors is an increasing value of a PBO's assets. It is worth mentioning that PBOs with modest resources in terms of subsidies and grants raise larger amounts of individual donations, because these organizations are deemed more trustworthy by them.

The results of the quantitative research (estimation of equations) carried out on the basis of Parsons' and Trussels' findings encouraged us to draw the preliminary conclusion that motives of Polish donors for supporting PBOs differ from motives of donors from other countries. The Polish history of the twentieth century has influenced the attitude of individuals in Poland toward public statements and private equity. For many years the responsibility for social welfare has been taken on by the State. For this reason the mechanism of donating for Polish citizens may be different.

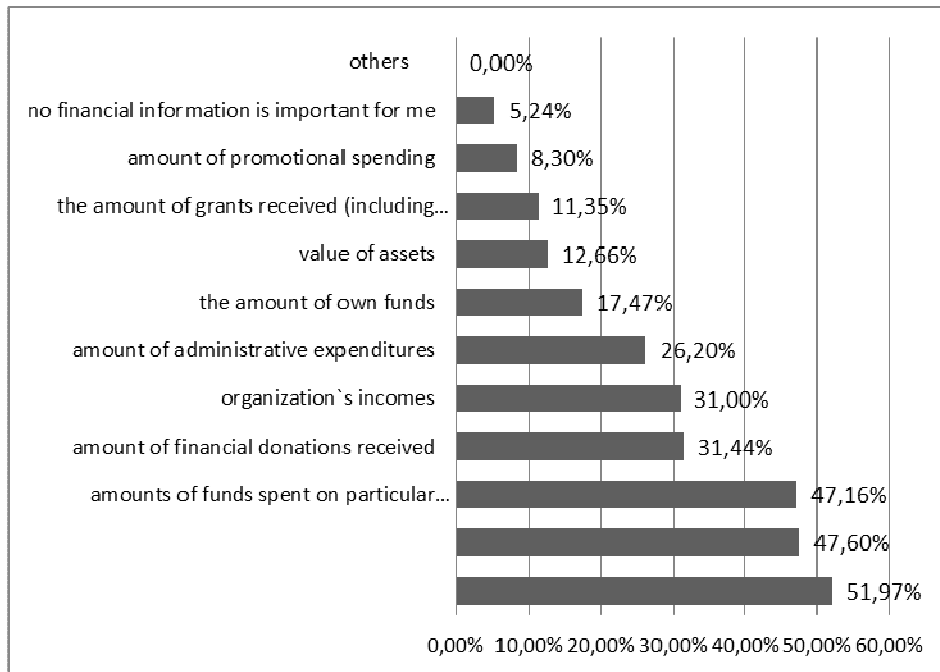
As a result of the above presented findings, we decided to carry out a questionnaire survey. We mailed and handed out 250 questionnaires to selected respondents. Owing to the non-random sampling approach and our commitment to collecting all the questionnaires, all of them were filled out and returned. Among these, 229 were found to be eligible for analysis (21 were rejected because the respondents were not employed and the rule adopted for the survey disqualified individuals without their own incomes). Although the answers cannot be treated as representative of the whole population of donors, they do provide a basis for formulating more research hypotheses and for planning new activities.

Compared with only 26.2% of the surveyed donors who stated that they used PBOs' financial information to find out which one they wanted to support, as many as 68.56% declared that they were interested in some of the financial information the organizations disclosed, however they did not use the financial data in their decision-making process. Only 5.24% of donors were not interested in financial results at all.

As regards financial information, the organization's spending on its charitable mission (51.97% of responses) and the descriptions of tasks completed in previous periods (in value terms) (47.60%) were rated the highest (see Chart 1). The balance sheet data, i.e. the amounts spent on promotion and the amount of grants received were found by the individual donors to be the least significant (8.30% and 11.35% respectively of all responses), with promotional spending being ranked the lowest. While these results are at variance with those obtained from the statistical analysis, it must be kept in mind that the only thing

they show is that donors appreciate this type of information, and not that the level of assets determines PBO's opportunities for raising additional funding, i.e. its potential (Chart 1).

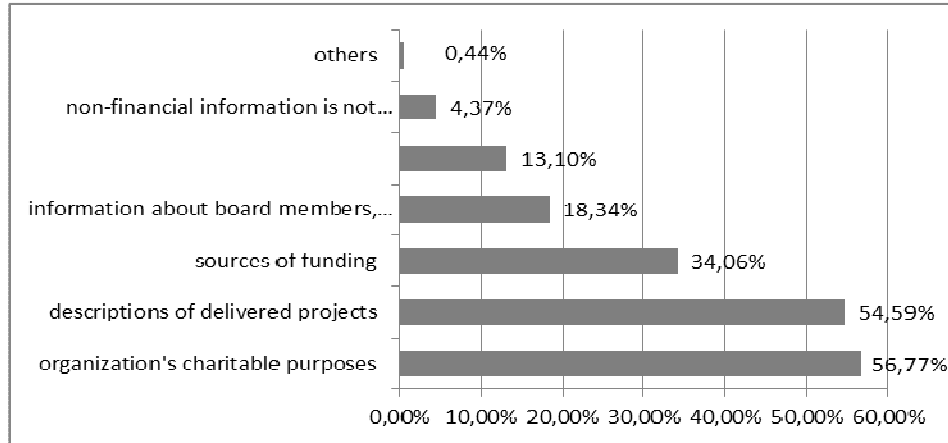
**Chart 1. What financial information individual donors considered important**



\*the respondents could give more than one answer.

Source: developed by the authors.

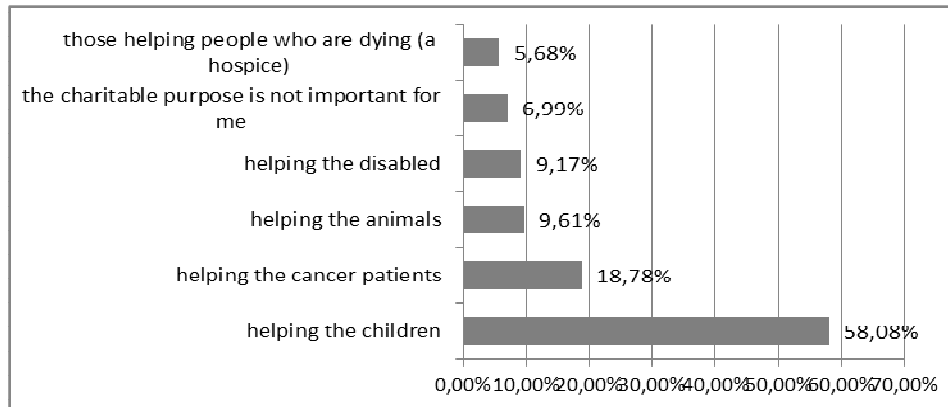
As far as non-financial information is concerned, the respondents were the most sensitive to the organization's charitable purposes as defined in its governing document (56.77% of responses) and the descriptions of past delivered projects (54.59%). Some respondents (4.37%) were of the opinion that all non-financial information was not important to them, and a small group, 0.44%, could not specify their expectations (see Chart 2).

**Chart 2. What non-financial information individual donors considered important**

\*the respondents could give more than one answer.

Source: developed by the authors.

When asked to assess the importance of the PBO's mission, the respondents usually pointed to those helping children (58.08%) (see Chart 3). Other purposes that the donors found worthy of their support were the care of cancer patients, animals, and the disabled. However, 6.99% of them found the PBO's mission not to be important at all. Respondents could choose answers from the list (based on the previous research, including Bekkers, 2008, Vriens et al., 1998), but they also could indicate other purposes not listed in the questionnaire.

**Chart 3. What charitable purposes individual donors prefer**

\*the respondents could give more than one answer.

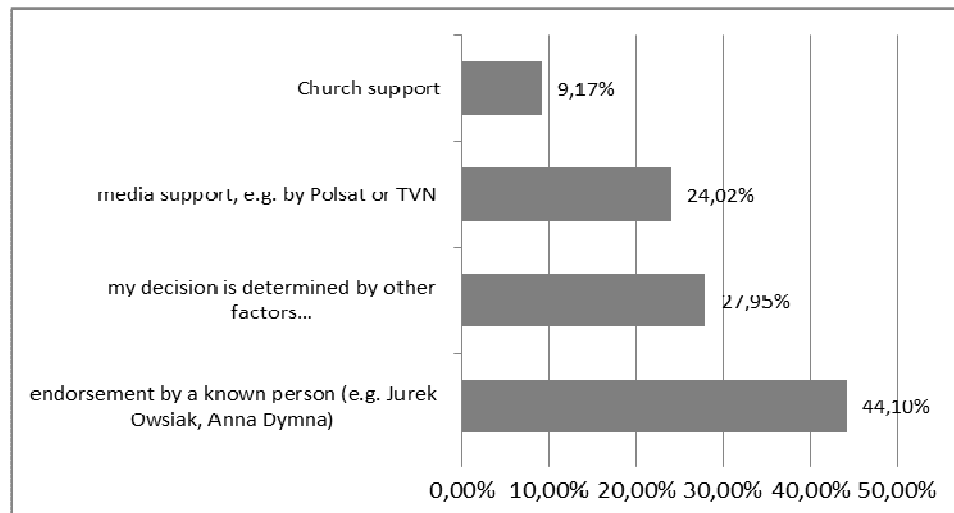
Source: developed by the authors.

The last thing the respondents were asked was to state other, less significant factors taken into account by individual donors in making donations (see Chart 4). The respondents could choose answers prepared by the authors as well as indicate other reasons not mentioned in the survey. A significant number of respondents (44.10%) pointed to the endorsement of an organization by public figures, and 27.95% of respondents listed factors outside the range proposed by us. In the latter group, the influence of a known person – a PBO employee, a volunteer, or the family of a foundation's or associations' beneficiary (7.86% of respondents) was mentioned the most frequently. Other noteworthy factors were:

- acting on an impulse, emotions (4.37%),
- PBO's local focus (3.06%)

Some other motivations for donating to a PBO included its visibility, credibility and efficiency (the respondents did not specify how they understood these terms, though), as well as the purpose of activity. Eleven persons could not state their motivations for donating. These results coincide with those obtained by Szper and Prakash (2011), who found that routine events or things, such as a word of encouragement from people one knows or the organization being present in a community's life could have the strongest effect on the decisions of individual donors.

**Chart 4. What other information individual donors considered important**



\*the respondents could give more than one answer.

Source: developed by the authors.

The respondents of our questionnaire survey could be divided into three groups:

- Donors using sources of financial data and valuing financial information (26.2%);
- Donors not using the financial data but interested in financial results (68.56%);
- Donors not interested in financial results (5.24%).

## **6. Results of qualitative research**

The high share of respondents interested in financial information (i.e. considering the information important for their decision) encouraged us to carry out qualitative research: a laboratory experiment. The aim of the laboratory experiment was to answer the question: what is the path of the decision making of individual donors in fact and why does the financial information not influence their decision despite of the fact that they consider it important?

We chose 32 participants for the laboratory experiment. They were chosen randomly among participants of a postgraduate courses at a leading University in Poland.

We planned four steps:

- Step 1 – making an individual decision. The participants had to choose one organization from a list supplied to them together with a short description of the organizations' goals. Then they had to explain shortly why they chose that particular charity.
- Step 2 – decision-making in groups. We divided the participants into groups of four persons. The participants could change their decision under the influence of others. Then they had to briefly explain why they made the decision they did.
- Step 3 – reading the statements of charities. The participants were given both the financial and activity statements. They could change their decision after reading and analyzing the financial information and explain why they did so.
- Step 4 – comparison of the organizations. Participants got the comparison in a Table containing the most important financial data and ratios of the given public benefit organizations. They could change their decision and they had to explain their decision.

After all steps were completed, we opened up the discussion and asked the participants to answer the following additional questions:

1. Is the financial information presented in a clear way?
2. Do they trust the financial information presented on the Websites of the PBOs or in their financial statements?



3. Which charity do they support in real life and why?
4. Did the exercise encourage them to use the financial data of PBOs in future in order to decide whether to donate and to whom?

After the analysis of responses of the participants we could draw following conclusions:

- 46% of participants (15 persons) never changed their mind after all the four steps;
- 34% of participants (11 persons) changed their mind after reading the financial statements;
- 21% of participants (7 persons) changed the mind under influence of others;
- No one changed the mind after getting the comparison of the results of the PBOs, however some declared that the comparison strengthened their choice.

We received following answers to the discussion questions:

1. The participants stated that the statements were difficult to interpret. The statements were either too long or too short – and the content was different in every organization. However, the value of salaries and number of volunteers was important to them in making the decision. Unfortunately, Polish donors did not know where to look for the statements. They said that they would use the statements in the future if they had time to do so. The key drivers of decision making were the name of the organization and the brand of the entity.
2. They said that they believed neighbors or the media more than the public statements of the organizations. The participants were skeptical about the information presented in the statements. They never checked to see if the organization had used the money effectively. As they put it: “Nothing depends on us, so why we should take care of this problem?” We argue that the attitude of the participants to the content of the statements results from the history of Poland and its years under communism.
3. Some people decided on impulse (3 participants); some people chose an organization because they knew its name or what it did (15 participants). The rest (14 participants) chose the organization taking into consideration the mission and goals of the charity. Moreover, most of them (30) said, that they do not pay attention to the choice of PBO when deciding which charity to designate as recipient of 1% of their personal individual tax. They do so because “it doesn't cost us anything.” For this reason they choose the organization randomly or because they have heard about it.
4. All of our participants declared their willingness to use the financial statements of PBOs in future. They found the experiment to be a very interesting experience.

Below we present a few selected answers of the participants:

*“...I chose the charity because I was a witness to the help rendered by the organization. It helped a very sick child. (...) However, after reading the financial statement I noticed that it pays high salaries, that’s why I changed my decision.”*

*“At first I chose charity X because it was a charity with a long history. However, as a member of the group I changed my mind. The key driver of my decision was the fact that one of my colleagues knew a beneficiary of the charity. The content of the financial and activity statements did not change my decision.”*

*“I chose organization Y because it was well known. The statements did not change my decision. I think that it is reliable”*

*“I chose the organization that helps children with cancer. I think there is nothing worse than sick children. My colleagues thought the same. After reading the statements I did not change my mind. The charity pays no salaries! (...) I saw few mistakes in the statements, but I do not think they were on purpose...”*

*“I chose organization Z because its activity is close to my heart(...). After reading the statements I did not change my decision. I liked the fact that it does not pay the salaries and has many volunteers. This is the most important for me.”*

The analysis of the respondents’ answers from the questionnaire survey and laboratory experiment not only supplemented the conclusions drawn from the estimated equations, but also confirmed some of them. We determined that building the civil society in Poland may be more difficult than in other countries because of the lack of tradition for Polish citizens to take responsibility for the good of society. However, non-financial information is the most important for individual donors, especially information from beneficiaries, media or people whom the donors trust. Based on the survey’s findings, we have formulated new research questions for the next stage of our research, after the necessary data is collected. We want to investigate if the PBO’s incomes depend on the scale of its activity as expressed through the number of its beneficiaries, staff and volunteers. Moreover we want to discover if a PBO’s donations from individual donors depend on the visibility of the PBO on the Internet.

## **7. Conclusions**

This research was aimed at identifying the factors influencing individual donors to choose a public benefit organization to support financially. The equation estimates and the findings provided by the questionnaire survey show that Polish donors still make very limited use of PBOs’ financial statements in

this process. This is mainly due to their low opinion of the usefulness of the financial information, as they either lack the necessary information to assess it or are provided with an overwhelming amount of data. We found the the reporting of activities and financial reporting by the PBOs are determined by strong institutional influences affecting their utilization.

The research also found that only some non-financial variables are important for individual donors. The key pieces of non-financial information the surveyed individuals needed to make a donation were the organization's goals and descriptions of its projects. At the same time, quite many participants stated that they had donated under the influence of people they knew. Some respondents could not explain what had made them support a specific organization, or else answered that the decision was spontaneous. However, one of our most important findings is that Polish PBOs operate in a specific environment: while donors are conscious of the fact that the financial data is crucial, nevertheless they do not believe the public statements. For this reason Polish PBOs must search for other tools to communicate with donors and encourage them to donate.

It is interesting to note that individual donors in Poland tend to adhere to the established patterns of donation. As a result a PBO receiving donations in the past will very likely obtain them in the future as well.

Our findings show that Polish individual donors are extremely reluctant to take on the responsibility for community development and building the civil society. The communist regime diminished social trust towards the government and organizations cooperating with the authorities. Thus Polish donors more believe their neighbours and beneficiaries than the public statements. Moreover, for many years all the tasks of the social welfare have been financed by the State. Thus it will take many years to change the conviction of Polish citizens that the government should take care of the poor and others in need.

As the awareness of Polish donors increases every year, it can be expected that they will give more and more importance to financial data and other information published by public benefit organizations. A growing number of donors will be interested in knowing if their contributions are used efficiently, and in PBOs' sustainability and the fulfilment of their missions. Owing to these expected trends we plan to carry out more research on the factors considered by donors planning to make donations, and on the reasons why they choose a particular charity. The first stage will involve the updating of the quantitative research sample with the most recent statistical data and the introduction of new variables to the model. At the same time, more questionnaire surveys will be carried out.

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## Streszczenie

### **FINANSOWE I NIEFINANSOWE CZYNNIKI MOTYWUJĄCE DARCZYŃCÓW DO WSPARCIA ORGANIZACJI POŻYTKU PUBLICZNEGO**

*Organizacje pożytku publicznego (OPP) realizują cele głównie niefinansowe, społecznie użyteczne, służące dobru jednostki lub dobru publicznemu. Wyniki finansowe OPP w Polsce pokazują znaczącą nierówność osiąganych przychodów, co oznacza, że darczyńcy stosują określone kryteria w podejmowaniu decyzji, której organizacji dobroczynnej udzielić wsparcia finansowego.*

*Celem badania jest określenie czynników o charakterze finansowym i niefinansowym wpływających na wybór przez darczyńców indywidualnych określonej organizacji nonprofit, którą wesprą finansowo. Metodą badawczą stosowaną dla realizacji postawionych celów jest model ekonometryczny, ankieta oraz eksperyment laboratoryjny.*

*Przeprowadzone badania potwierdziły, że indywidualni darczyńcy w Polsce w niewielkim stopniu wykorzystują sprawozdania OPP. Przyczyną takiego stanu jest m.in. zbyt duża zawartość informacji w sprawozdaniach i/lub niewiedza darczyńców o miejscu publikacji tych sprawozdań. Z drugiej jednak strony duża część uczestników badania wykazała zainteresowanie danymi finansowymi i wynikami niefinansowymi OPP w celu podjęcia decyzji.*

**Słowa kluczowe:** organizacje pożytku publicznego, pomiar dokonań, darczyńcy