

Communicating ‘dual citizenship’ – how do charities manage their reputation for ‘good works’ while undertaking commercial activities?

### **Abstract**

Charities and not-for-profit organisations have traditionally eschewed commercial operations in favour of direct fund-raising from supporters. Building on Goodall’s (2000) exploration of sectoral values, it can be said that competitive pressures are driving charities to take on ‘dual citizenship’ through activity in both profit (commercial) and nonprofit (voluntary) sectors.

In the United Kingdom, there are some 170,000 charitable organisations in England and Wales which generate £46 billion in annual revenue (UK Charity Commission 2008). There has, however, been little scholarly attention or professional focus on the impact that commercial trading by charities has on relations with key stakeholders, such as supporters, and upon the reputation of the community-focused organisations.

This paper reports a case study of a UK charity and explores, using document analysis and phone interviews with supporter-stakeholders, their perceptions of the impact of commercial trading upon the organisation’s reputation as well as their relationship and level of engagement with the organisation.

It found that donors are overwhelmingly in support of commercial activities, as long as these are aligned with the charity’s values. The study, however, also found that commercial activities should not deflect the charity from its perceived and announced mission. There were also lessons arising from the study on frequency and style of communication, and the relevance of models of communication, c.f. Grunig’s four descriptors, and measurements of relationships (Hon and Grunig 1999). The paper concludes with proposals for further research.

### **Introduction**

Charitable organisations operate in an increasingly complex, market-driven environment. In England and Wales alone, 170,000 charitable organisations compete for over £46 billion in annual revenue (UK Charity Commission 2008). This intense competition means many charitable organisations are diversifying revenue by augmenting or supplanting traditional fund-raising with commercial, revenue-driven activities such as charity stores, branded products and ticketed events.

While not new, commercial trading by charities has only begun receiving scholarly attention in the last decade (Horne 2000; Horne and Maddrell 2000; Guo 2006; O’Neil 2006; Zimmerman and Dart 1998). Very little is known about how commercial activities—and the way charities communicate about them—impact organisational relationships with donors. Donors

bring much more than just financial resources to an organisation. As such, the interaction with an organisation is more than transactional and involves complex perceptions and expectations.

### **Cross-sectional view of reputation**

With one foot in both the profit and nonprofit sectors (Goodall 2000), it can be said that many charities hold sectoral 'dual citizenship', a complex situation for practitioners managing the reputation building process. Academic scholarship strongly supports the benefits of positive reputational regard (Caruana 1997; Fombrun 1996; Fombrun and Shanley 1990; Fombrun and van Riel 2003; Porter 1985; Rindova and Fombrun 1999) in both sectors (Gainer and Padanyi 2002). Yet the reputation of nonprofits seems especially vulnerable to marketing missteps (Tapp 1996) as trust-building is of paramount importance in the nonprofit sector (Fenton et al. 1999; Greiling 2006; Ritchie et al. 1998; Sargeant and Lee, 2002). Effectively managing relationships with and perceptions of important stakeholders helps build trust, an essential element of donor-organisation relationships in the nonprofit sector (Paine 2003; Sargeant and Lee 2004). Relationships with these stakeholders are a strong component of reputation (Fombrun 1996; Ledingham and Bruning 2000; Spencer 2001). Meeting the expectations of stakeholders within these relationships is a vital component of a good reputation (Freeman 1984; Mahon and Wartick 2003; Saxton 1998).

### **Exchange models within relationships**

The relationships in which an organization may engage are many-fold, particularly for human services charities whose beneficiaries are people. In describing a nonprofit model, Hankinson (2000) notes the existence of a three-way exchange process between a donor who funds the help, the charitable organisation that performs the helping action and the beneficiary who is the recipient of help. Balabanis et al. (1997) characterise the process as moving resources from a donor market to a beneficiary market with the charitable organisation mediating the exchange. They note the lack of attention paid to the beneficiary market in light of an overemphasis on the donor resource market. Their model, however, minimises the role of the organisation into that of mediator instead of equal participant in the exchange. Donor, charity and beneficiary are all vital parts of the nonprofit exchange process and a robust model is lacking to effectively capture this process.

Hon and Grunig's (1999) typology of relationships offers an alternative model for relationship but does not adequately explain the three-way exchange process somewhat unique to the charitable sector. They note communal relationships are characterised by altruistic concerns for the welfare of each partner irrespective of receiving a benefit in return. It could be argued, however, that their example of fundraisers needing to "cultivate a communal relationship with potential donors before they can ask for money" (1999, p.22) is not communal at all. The fundraiser has the very real expectation that, in exchange for what might appear to be an altruistic overture, the 'potential' donor will actually become a donor. It would be poor stewardship for a charity to attempt to maintain a quasi-fund-raising relationship with people who are not donors or to remain communally attached to 'potential donors' into perpetuity. This organisation-to-(potential)-donor relationship would be better characterised as a 'pre-exchange' relationship with a potentially lengthy onset phase initiated by the organisation. Donor relationships can be even more complicated, and the communal aspect minimalised, in the case of commercialized charities

that can provide a direct benefit to the *donor* as a result of their financial support.

The argument could be made that nonprofit organisations do in fact engage in communal relationships, for example, with their beneficiaries. The counter-argument could also be made that this relationship can also be characterized as a pre-exchange relationship. For example, beneficiaries of a charity can be asked to speak well of it to donors at a fundraising event. The triplex relationship of donor-organisation-beneficiary is not easily characterized given the motivations of and intangible benefits received by the donor, combined with the expectations and actions of both beneficiary and organization. A robust model for these relationship interactions—critical to reputation management—is lacking in the extant literature.

### **Targeting the communications of commercialised charities**

This gap in understanding regarding the reputation building process for nonprofits presents opportunity for exploration to which this study responds. Much of the existing research on donor expectations and perceptions has been carried out in random population samples (e.g. Bennett 2003; Bennett and Gabriel 2003; Bennett and Savani 2003; Schlegelmilch et al. 1997) and seldom amongst donors to a particular charitable organisation, that is, those who comprise its most salient stakeholder group (O’Neil 2006, 2007; Waters 2006). Scant research, if any, has been directed towards understanding how communication regarding a charitable organisation’s involvement in commercial trading affects the ongoing relationships it maintains with donors. In addition, much academic writing focuses on reputation but there is considerable debate as to whether the methods of its measurement proposed by Fombrun and others are robust. Their application is mainly in the commercial consultancy sector, which has less regard for statistical methodology and statistical significance.

### **Research objectives**

Gronstedt (1997, p.34) notes that, rather than being evidence-based, the majority of public relations decisions are founded on “gut feelings, speculation and hearsay.” The research objectives for this study have been designed to address this over-reliance on instinct by providing an empirically-based exploration into one aspect of public relations within the nonprofit sector. The research objectives were:

- 1) To explore how donors perceive the commercial activities of a UK charity (hereinafter, the Charity)
- 2) To examine how the Charity’s communication regarding its commercial activities impacts its relationships—and consequently its reputation—with donors
- 3) To explore the application and adaptation of existing models of relationship to a nonprofit context

Practitioners can apply the findings to real-life situations within commercialised nonprofit organisations. The findings are also pertinent to researchers investigating developments within the charitable sectors of the UK and other Western, English-speaking nations.

### **Methodology**

Using a case study approach for this research has enabled a focus on the relationships and processes within the context of reputation management. A case study approach allows for an in-depth study of a focussed area of inquiry (Bell 1999; Punch 2005). Case studies allow for an in-depth analysis of events, relationships and processes (Denscombe 2003). Similar to other UK charities, the Charity offers “intrinsic interest” (Denscombe 2003, p.35) because of its involvement in both charitable and commercial activities. The Charity is primarily a human services organisation that provides educational and informational resources designed to help UK families become more emotionally, spiritually and physically healthy.

### **Data collection**

Data was collected through document analysis and semi-structured telephone interviews conducted in March and April 2007. The Charity provided communication pieces, including print magazines, newsletters, electronic and direct mail pieces, from the twelve months preceding the interviewing period for document analysis. Using Bell’s (1999) documentary evidence method to explore context, intended objectives, key messages and audiences, the document analysis provided evidence for formulating interview questions, and accurately analysing interview data.

Following document analysis, semi-structured interviews were carried out by telephone. Telephone interviewing has several advantages over in-person, not the least which includes convenience and time efficiency. More significantly, evidence suggests that respondents are more honest in telephone interviewing versus face-to-face (Denscombe 2003).

### **Sample**

A sampling frame of approximately 20,000 donors to the Charity was used. ‘Donor’ in the case of the Charity refers to supporters who have contributed financially. This support may have been through donation, product purchase or attendance at a paid-ticketed event. From the sampling frame, a computerized data request generated 300 donor records which were used by the interviewer to solicit interviews. Thirty interviews were completed. Participants were located in all four regions of the UK. Several participants self-identified as non-white or non-British thus confirming that the sample was ethnically diverse. Additionally, participants divulged age characteristics such as pensioner, retiree, grandmother, new parent and so on indicating age dispersion.

### **Data analysis**

Data from the document analysis were used to form the interview guide. At times, participants referenced communication pieces from the document analysis thus the researchers accessed them to assist in interpretation of the interview data. Document analysis allowed for triangulation between the Charity’s communications, interview data and the researcher’s interpretations.

Data was analysed while it was collected (Daymon and Holloway 2002) in an ongoing iterative process of analysing, interpretation and reflection. After all interviews were transcribed, transcriptions were verified for accuracy and the data was coded facilitating the data analysis

process of reduction, display and identification of conclusions (Miles and Huberman 1984).

### **Limitations**

While the research design contained some limitations, the researchers do not find that these limitations have jeopardised either the authenticity or trustworthiness of this study. The limitations include the timing of the project and the database constraints of the Charity and are explored below.

#### **Timing**

This project was designed to explore the Charity's reputation at one point in time and does not purport to track the Charity's reputation over time. The results should be interpreted in light of this limitation. The timing and context of the data collection is relevant (Daymon and Holloway 2002) as some respondents had trouble recalling specific communication from the Charity.

For further research, an alternative time to carry out interviews may be soon after correspondence has been dispatched to supporters to increase the chances that the Charity's communication pieces are fresh in their minds. Arguably, this might also result in data which disproportionately represent the salience of the Charity's mailings for participants; that is, they may perceive the Charity's mailings are more frequent or persistent simply because of recency. A longitudinal study may be one way to address both recall and recency limitations.

#### **Database constraints**

The sample used for this research consisted of supporters of the Charity who had been active supporters in the twelve months before the research began. Due to database constraints in retrieving donor records, the sample lacked what fundraisers term 'lapsed donors', that is, those who are no longer actively giving to the Charity. As a result, the perspectives on the communication activities that are offered are limited to participants who are likely favourably biased towards the Charity. This bias can be disputed, however, by the critical comments expressed by some participants. For further research, exploration of the perceptions of lapsed donors may provide more insight into how communication activities about commercial activities impact a charity's reputation.

### **Findings of the study**

1. DONORS ARE OVERWHELMINGLY SUPPORTIVE OF COMMERCIAL ACTIVITIES, AND COMMUNICATIONS ABOUT THOSE ACTIVITIES, WHICH ARE IN LINE WITH THE CHARITY'S VALUES AND HELP ATTAIN ITS MISSION.

The first research objective was to investigate donor perceptions regarding the Charity's commercial activities. The findings indicate that, overwhelmingly, donors to the Charity were supportive of commercial activities with two important caveats: the activities must align with the Charity's values; and the commercial activities must contribute to the attainment of the Charity's mission and not simply generate revenue. Commercial activities perceived as removed from the Charity's mission or undertaken for pure financial gain were viewed negatively. In fact, charities

whose commercial activities were designed to only generate revenue were viewed as bothersome and noisy.

Donors indicated they were intolerant of charities that offered ‘premiums’ or items of token value used in fundraising. One participant expressed strong irritation at a pair of unsolicited slippers that arrived through the post from a charity. Feeling they were intended to elicit a “guilt gift,” she packaged up “the manipulative slippers” and sent them back to the organisation—only to be sent another pair a few weeks later. Another participant had received three umbrellas from the same organisation and noted wryly the uselessness of three umbrellas when she only had two arms. As one participant noted, when engaging in commercial trading, the Charity’s activities should keep close to its reason for being:

*I think if [the Charity] were peddling jeans with [its] logo on them, I think I'd say forget it... There are plenty of other organisations that are dependent on people buying their jeans because that's what they do. I mean, stick to what you do.*

## 2. WHAT DONORS PERCEIVED TO BE THE CHARITY’S *INTENTIONS* GREATLY IMPACTS HOW THEY INTERPRET THE MESSAGING THEY RECEIVE FROM ITS COMMUNICATIONS.

Participants indicated that the Charity could overstep its boundaries, for example, by offering irrelevant materials to its supporters, as long as its intentions were deemed honourable. This finding is significant as it emphasises the importance of transparency in communication, particularly about commercial activities and also evidences a level of tolerance unique to the charitable sector. It also provides support to the collaborative meaning-making process that occurs with communication. As Gronstedt (1997) notes, research needs to be focussed less on what effect the communication of a message has on people and more on what effect people have on the message that is the object of a communication exchange.

## 3. NEITHER COMMERCIAL ACTIVITIES NOR REVENUE GENERATION OF ANY KIND SHOULD DISTRACT FROM MISSION ATTAINMENT.

Donors wanted to see that the Charity was focussed on achieving its mission and not distracted by revenue generating activities. Supporters emphasised the importance of the Charity focussing primarily on attaining its mission rather than promoting its financial needs to supporters, despite recognising that satisfying the latter largely enables the attainment of the former. They recognised that financial need is a constant state of affairs for the Charity but that it should appear to be secondary to the Charity’s focus on attaining its mission.

Financial astuteness on the part of the Charity, while of paramount importance to whether donors would give, was not a measure of success per se. Unlike many nonprofit managers who are charged with sustaining organisational operations, donors perceived success largely as mission attainment. While a reasonable level of financial acumen was assumed in order for the Charity to receive the donor’s ongoing support, attaining fund-raising goals did not indicate to donors that the Charity was successful.

## 4. “SERVICE-ORIENTED” COMMUNICATIONS CAN EFFECTIVELY ENABLE, AND EVEN MASK, THE MARKETING OF COMMERCIAL ACTIVITIES.

The second research objective of this study was to explore the impact of communication activities about commercial activities on the donor relationships, and consequently the reputation, of the Charity. Charity marketing activities were viewed as negative but largely necessary. Given this discomfort with marketing and their affinity for the Charity, participants preferred to identify the communications from the Charity as “service-oriented” rather than “marketing-oriented”, even though the Charity regularly promoted its ticketed events and the products it sold through its communications pieces. “Service-oriented” communications were described as being largely informative and not obviously persuasive, while maintaining a promotional intent. Helpful information, as a service, seemed to offset the impact of a pure marketing pitch in the presentation of products the Charity was selling. In addition, as indicated by several participants, information from the Charity was perceived as an immediate tangible and personal benefit thus enriching the relationship, potentially accomplishing marketing goals and creating long-term satisfaction with the Charity.

5. DONORS ARE ANNOYED WITH OVER-COMMUNICATION FROM THE CHARITABLE SECTOR AS A WHOLE BUT INVITE COMMUNICATION FROM CHARITIES THEY CARE ABOUT.

Participants indicated they were overwhelmed by the clamour from charitable organisations struggling to get their attention. Participants used various pejorative ways to refer to communication from the charitable sector in general: they felt “hassled” and “bombarded” by unsolicited, “intrusive” fund-raising requests from charities for which they had neither an affinity nor history of a past relationship. One participant referenced a meaningless “mail shot” he had received from a charitable organisation. Another participant expressed her desire for charities to “lower the tone” in their communication activities by asking for less and reducing alarmist appeals. Despite their irritation with other charities, all the donors in this study welcomed the communication they received from the Charity as they had *invited* it.

6. THE ‘GIVING PARADOX’ COMPLICATES THE EXCHANGE PROCESS WITHIN THE DONOR-ORGANISATION-BENEFICIARY RELATIONSHIP.

The third research objective for this study was to explore current models of relationship and their applicability and adaptability to nonprofits. Relationships between organisations and their publics are well-established as a crucial dimension of reputation. Using Ledingham’s (2003) theory of relationship management, for interviews the researcher adopted the view of relationship as a mutually beneficial exchange between two parties. The giving paradox, where a person chooses to become poorer to make someone else richer (Bracewell-Milnes 1990), is a complex dimension largely absent from for-profit relationship exchanges. Depending on how one typifies the benefits, giving may or may not be mutually beneficial. As Halfpenny (1999) notes, altruism may not be a rational phenomenon thus it is highly complex to analyse.

One complexity arises in regards to identifying exactly what benefit a donor receives from giving. Hankinson (2000) describes one benefit as the ‘warm glow’ that is the psychological reward for generosity. However, the benefit gained from involvement with a charitable organisation is often not a personal benefit. In this study, several participants explicitly indicated they supported the Charity because of what it was accomplishing in society as a whole. The reward or benefit could also be some level of involvement, through directed giving, into how funds will be resourced to beneficiaries. While there is an exchange process, the benefit received

by the donor is difficult to typify. Conversely, particularly with charities that are involved in commercial activities, the donor may receive an immediate tangible benefit such as an informational resource or a thank you gift for their financial contribution.

Building on Hankinson's (2000) notion of three-way exchange, another partner in the exchange is the beneficiary. Beneficiaries provide an organisation, the third partner, with its reason for being and without beneficiaries in need of help, it would likely not exist. It is, in one way, how the beneficiary 'gives' back within the exchange. Without them, the donor would have no reason to give and no way of deriving the benefit he or she receives from giving. Thus, the connection between the three parties is direct, even if not tangible. It is reciprocal as all three are active agents, even if the benefits traded between the donor and the beneficiaries are exchanged within the purview of the charitable organisation. Figure 1 provides a simple illustration of how these connections might be conceptualised.

Expectations are a well-established component of relationships within the reputation building process. Yet many of the donors in this study were uncomfortable with the notion of the Charity meeting their expectations, despite providing financial resources for it to carry out its activities. One donor stated he did not expect the Charity to respond to his "whims"; still others felt it would be inappropriate to place expectations on the Charity even though they likely held them, for example, in expecting the Charity to steward resources well and accomplish its mission as discussed previously.

This finding regarding expectations may evidence some incongruency with existing models of relationship. Personal expectations, such as those regarding communication preferences with donors, may be subservient when a charitable organisation is true to its mission in serving its beneficiaries. A higher level of tolerance, built through emotional attachment or affinity with the Charity may result in greater forgiveness for organisational gaffes. Donors may also perceive that a charity has fewer financial resources than a business and hope, as one donor observed, that it does the best it can. Additionally, returning to the giving paradox, expectations may be tied to motivations. Altruistically motivated transactions will likely differ greatly in terms of expectations from a service or product exchange relationship that is found in most for-profit interactions.

As this research is exploratory, a satisfying explanation may be elusive. In this three-way exchange context, donors may be willing to subvert their expectation of personal benefit and trust that, instead, a benefit will be provided to society as a whole or to specific beneficiaries whom the donor likely does not know personally. Does this still denote an 'expectation'? It is likely not an *expectation* of personal benefit or even communication needs, rather it is the *expectancy* of the Charity evidencing credibility and trust in fulfilling its mission.

Figures 2, 3, and 4 illustrate this contextual perspective on the contrast between transactions in the two sectors. Figure 2 shows a model of a simple, two-way business transaction where both parties are driven by self-centred motivations: the consumer pays a fee to obtain either a product or service that brings direct benefit to him or her which in turn provides revenue for the business with which the consumer transacts. The benefits obtained by the business may also include positive reputational regard and the personal satisfaction of the business owner and so on.



Figure 3 illustrates a three-way exchange process in a publicly owned corporation with shareholders: an investor provides capital to a corporation who provides dividends in return. The corporation provides a product or service to a customer who pays a fee. The customer receives a product or service which has been partially developed by the investor's capital and, in turn, the investor's interests in the corporation grow as a result of the customer's action. It could be argued that the investor and members of the corporation receive the satisfaction of providing a customer with a worthwhile product or service. The return connection from customer to investor is likely weak or non-existent as customers often are not aware of public or private ownership.

In a nonprofit exchange, however, the product or service is fully funded by a donor, or more accurately, donors, thus strengthening the connection between beneficiary and donor. Figure 4 illustrates the three-way charitable exchange process using Hankinson's (2000) three-way exchange and Balabanis et al.'s (1997) model of market exchange. The investor becomes a 'donor' who gives a gift to facilitate a product or service of a charitable organisation to a beneficiary. Donors may receive tangible benefits directly from the charity such as a thank you gift, public recognition for support, or a tax incentive. Charities involved in commercial trade complicate the typology of benefits as supporters may also receive a product or a service in exchange for their financial support. Non-tangible benefits, such as the joy that can accompany giving, also factor into the exchange. Beneficiaries, while receiving tangible benefits from the charity, may also receive intangible benefits by knowing that donors care enough to give to help, a benefit akin to the 'warm glow' donors receive when they give to an organisation.

## Conclusion

Dual citizenship within the for-profit and nonprofit sectors did not present a problem for donors to the Charity. Mission is the bonding agent which holds donor perceptions of an organisation's activities together. Communication that clearly presents commercial activities as part of the Charity's endeavours to achieve its mission, and not simply to fund its mission, is crucial to ongoing donor support. The exchange process within the charitable sector is unique and not adequately represented by existing relationship models which are inadequate for the giving paradox. Several areas for further research have arisen during this research and are found below.

**Expectations:** This project has provided some preliminary, exploratory findings regarding expectations but further research is needed to better understand the giving paradox and its impact on expectations.

**Commercial activities impact on giving behaviour:** This study demonstrated donor approval of commercial activities, but did not address how commercial activities impact giving behaviour, an area ripe for further exploration.

**Charitable sector 'noise':** Further research may provide insight into how charitable communication can become less promotional and more 'service-oriented', thus reducing the overall din of the UK charitable sector. Fund-raising premiums need further study to understand their role in the reputation and relationship building process over the long-term.

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Figure 4 Suggested transactional model for nonprofit context

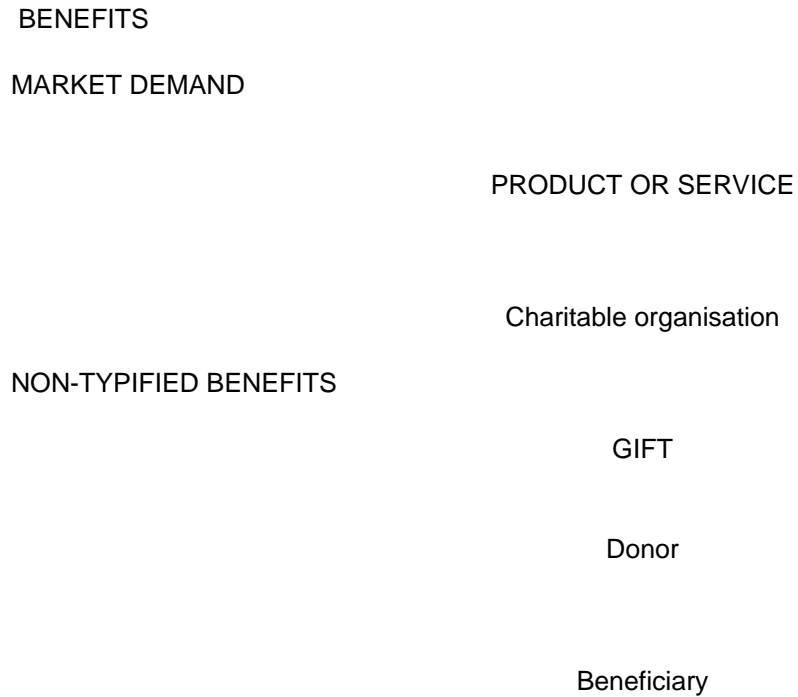


Figure 3 Suggested transactional model of a publicly held company



Customer

Figure 1 Suggested transactional model of a privately held company

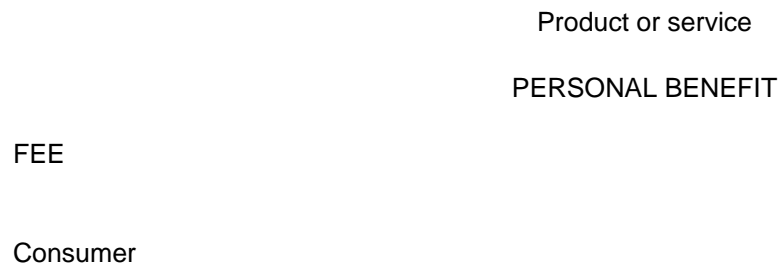


Figure 2 Connections between donor, organisation and beneficiary

