Adding exchange to charity: A reference price explanation

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Received 18 May 2005; accepted 12 December 2005
Available online 10 March 2006

Abstract

Charities often request donations while offering a near-worthless token, like a key chain, in exchange. Little research has examined whether such ‘exchange’ requests are met with higher compliance rates than simply asking people to donate. Our studies suggest that in simple donation settings people may have difficulties in estimating a socially acceptable donation amount and therefore prefer opportunities that provide them with an anchor price. The value of a material good in a donation setting can play this anchoring role and signal a reference price. To the extent that the suggested reference price is low enough, exchange requests lead to more compliance than simple donation requests. However, our results indicate that, when accompanied by specified amounts, simple donation requests result in even better compliance rates than exchange requests.

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JEL classification: M31
PsycINFO classification: 3920

Keywords: Fund-raising; Donation behavior; Exchange; Reference price; Anchor

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1. Introduction

Economists and social psychologists have often attempted to understand charitable giving from the supply side of donations: “Why should people make sacrifices for others?” Recently, however, researchers have recognized the importance of considering also the demand for donations, that is, the fund-raising side of the market. Fund-raising has developed into a huge, sophisticated and competitive business (Andreoni, 2006). Although there is not much literature or data collection on fund-raising strategies, there is a great deal of ‘common’ knowledge about the best fund-raising practices. Intuition and some research (Holmes, Miller, & Lerner, 2002) suggest that adding some return utility to a donation may make donating more attractive, even if the resulting utility is minimal or even illusionary. For example, charities and non-governmental organizations are known to bundle donation requests with an often near-worthless exchange, like a plastic key chain, a pencil, or a set of postcards that you may never use. In doing so, they present the donation request as an exchange, or an economic transaction.

In this paper, we examine whether and why consumers react positively to donation requests that are framed as the sale of a product. We think that one of the reasons why a priced exchange may increase compliance is that it signals an anchor or a reference price to which potential donors can compare candidate contributions. As long as this price is appropriate and fair, it gives potential donors an indication of an expected donation amount that is comfortable. In a simple donation setting, on the other hand, we think that people lack an anchor that informs them on an acceptable donation amount, and therefore they often decide not to donate at all.

2. Exchange as an alibi

To our knowledge, Holmes et al. (2002) were the first to test why adding exchange to charity can trigger more donors than simply asking people to donate. They argue that a powerful societal norm of self-interest precludes people from behaving altruistically. In fact, even individuals who experience strong feelings of compassion may be hesitant to act on those feelings because of this norm. People think that most other people are mainly driven by self-interest (Miller & Ratner, 1998), but in fact they are more driven by altruism and compassion. As people expect other people to behave selfishly, they are quite surprised to see acts of altruism in others (Ratner & Miller, 2001). As a consequence, people prefer self-interested behavior to avoid being exploited by self-interested others, or to avoid social disapproval for being ‘irrational’ (Miller & Ratner, 1998; Miller, 1999). Even in a completely anonymous setting people might still want to obey the norm of self-interest because they have internalized the belief that it is the appropriate and rational thing to do (Tyler, Huo, & Lind, 1999).

Framing the donation as a commercial exchange may therefore provide potential donors a ‘psychological cover’ that enables them to act altruistically (i.e. an excuse for not complying with the norm of self-interest). It gives them the opportunity to show their genuine compassion, while avoiding the negative feelings associated with violating the norm of self-interest.

Construing a donation as a transaction has the additional advantage that it can limit the implications for the self of what Lerner (1986) calls ‘justice motive’. By responding to appeals for unconditional help, one creates a psychological duty to be helpful to all
other persons or groups worthy of help in the future: “If I help now, I'll always have to help!” Engaging in a commercial transaction does not generate the same moral commitment.

3. Exchange as an anchor

When confronted with a donation request, the potential donor needs not only to decide whether or not to give, but also how much to give. Fraser, Hite, and Sauer (1988) suggested that potential contributors form an impression of some minimally socially acceptable anchor point to which potential contribution amounts are compared. Amounts greater than the minimum anchor are regarded as generous; amounts smaller than the minimum are regarded as socially unacceptable. However, just like consumers may have difficulties in estimating the price of a service due to a lack of a salient cost of goods sold (Bolton, Warlop, & Alba, 2003), in a simple donation setting potential donors may also experience difficulties determining what would be an appropriate donation amount. For economic reasons they may want to avoid too large a contribution, while too small a contribution may be perceived as inappropriate. Decision difficulty often leads to choice deferral (Dhar, 1996). Similarly, potential donors may make no contribution at all if determining the appropriate donation appears too difficult.

The option to ‘buy something’ instead of just donating may make it easier for potential donors to assess the minimally socially acceptable donation amount (cf. Fraser et al., 1988). Indeed, the reference price of the token product may serve as an anchor that is used to determine the expected donation amount and thus may influence the decision to donate. This would be similar to the finding that first offers serve as anchors and strongly predict final settlement prices in a negotiation situation (Galinsky & Mussweiler, 2001). So, the donation price one asks in exchange for a token may provide potential donors with an anchor against which contributions can be compared.

Of course, providing people with a donation anchor does not necessarily imply that they will feel compelled to donate. Indeed, justice motive theory (Lerner, 1986; Miller, 1977) states that helping someone in need should not lower one's outcomes below a deserved level. Clearly, if the token that is offered signals too high a donation amount, people will not donate, not even in exchange for a token. In particular, donation requests coupled with ‘overpriced’ exchanges may not help or may even decrease compliance rates compared to simple donation settings, as people might fear that their own outcomes are at stake. In fact, asking a lot of money in exchange for a worthless token might be perceived as unfair.

On the other hand, tokens that are sold in a donation request may signal a donation amount that people consider being ‘fair’. First, a low priced token may signal a donation price that is lower than the perceived donation price in simple donation settings. Moreover, low priced exchanges may legitimize small contributions and, therefore, render most excuses for non-compliance (e.g. “We can’t afford to help”) inappropriate and make refusal socially embarrassing. This assumption is supported by Cialdini and Schroeder’s (1976) finding that, in a door-to-door charity drive, a reminder to potential donors that ‘even a penny will help’, significantly increased the number of donations without affecting their average size. They argued that people are more likely to donate in this case because of self-presentation concerns (see also Brockner, Guzzi, Kane, Levine, & Shaplen, 1984; Reeves, Macolini, & Martin, 1987; Reingen, 1978).
Finally, if the presence of an anchor or reference price is an important factor in triggering donations, the association of simple donations and fixed prices should lead to similar effects. That is, compliance rates in a simple donation setting should also be elevated when giving potential donors the opportunity to donate a specified small amount. Requesting specific large donation amounts, on the other hand, should decrease the probability of compliance. In that context, Schwarzwald, Bizman, and Raz (1983) already showed that in combination with the foot-in-the-door paradigm donation sizes can be elevated by requesting specified amounts. Still, the foot-in-the-door technique is a gradual persuasion technique in which an initial, modest request is followed by a subsequent, larger request. In our research, however, we want to test whether compliance rates can be enlarged by requesting specified amounts, without the aid of a proceeding modest request.

4. Empirical research

The main goal of this research was to test an anchoring mechanism for the role of adding exchange to charity. We expected more people to donate in exchange for a product compared to a simple donation condition. However, we expected this effect of exchange to be moderated by its price. Indeed, a low token price may urge people to donate as it provides them with a comfortable indication of the expected amount; that is the signal of a ‘fair’ price. On the other hand, an overpriced token or too high an anchor may not help or may even inhibit people from donating. Further, if an exchange can ‘help or hurt’ depending on its price, we hypothesize that specifying contribution amounts in the context of simple donations should bring about compliance rates that are comparable to those in exchange settings.

5. Study 1

In the first study, we explored the effect of an exchange on the incidence and amount of donations. We controlled for the frivolous or functional nature of the token exchange, because this has been found to make a difference in the context of bundling charity donations to the purchase of a product (e.g. for every package of its coffee sold during the Christmas Holidays, Douwe Egberts® recently donated one serving of coffee to the homeless in Belgium). In this context Strahilevitz and Myers (1998) found that charity incentives were more effective in promoting frivolous products than practical products. They suggested that donations complement or neutralize the negative feelings associated with indulging in frivolous consumer behavior (see also Kivetz & Simonson, 2002). By means of a pre-test we obtained two products that differed significantly in frivolity, but score equally on a functionality-scale: regular and colored staples (both €0.50 real shop value).

To explore our prediction that an exchange might signal an anchor or reference price that may induce people to donate, we asked participants to estimate the value of the offered products either before or after the donation decision. If people are more likely to donate when their attention is first drawn to the product value, this would yield further support for our assumption that the value of the product in the exchange serves as an anchor that guides people in their donation decision.
5.1. Method

5.1.1. Participants
A total of 144 volunteer undergraduate economics students participated in this scenario study which was part of a written questionnaire, conducted in groups of about 20 people.

5.1.2. Materials and procedure
The participants were randomly assigned to one of three experimental conditions. They were asked to donate to a charity without a product being offered (simple donation), donate in exchange for the ‘functional’ staples (practical exchange), or donate in exchange for the ‘frivolous’ staples (frivolous exchange). The charity used in the scenario was described as follows: “An organization that delivers basic medicine for the treatment of diseases as malaria, tuberculosis, and African trypanosomiasis (sleeping sickness) in parts of Africa, Asia, & Latin-America”. In the exchange conditions, a picture of the staples accompanied the appeal. Participants had to indicate whether or not they would be willing to donate and how much.

In the exchange conditions, we also asked participants to estimate the shop value of the product either before or after the donation request. As the shop value of a product may somehow differ from the value participants think its worth to them on that moment in time, we added a third exchange condition in which we asked participants before the donation request how much they would pay for the product if they would have the chance to buy it ‘here and now, under these circumstances’. The donation request and the value estimation were always presented on different sheets of paper.

In all, then, our design consisted of one simple donation condition and six exchange conditions. The latter represented a 2 (type of product: functional versus frivolous) by 3 (combination of questions: (1) donation request before shop value, (2) shop value before donation request, and (3) ‘here and now-value’ before donation request) design.

5.2. Results

The frivolous versus functional nature of the token did not significantly affect our results. We therefore collapse over this factor in our analysis. This leaves three different conditions in which participants were offered an exchange: donation request before shop value (Exchange 1), shop value before donation request (Exchange 2), and ‘here and now-value’ before donation request (Exchange 3). Together with the simple donation condition (Donation), this leads to four different experimental conditions (see Table 1 for the different cells).

5.2.1. Compliance probability
A logistic regression with donation (yes versus no) as the criterion, and experimental condition as the categorical predictor (with four levels), revealed that compliance varied across the experimental conditions, $\chi^2(3) = 14.81, p = .002$ (see Table 1). In line with our hypothesis, planned contrasts revealed that the compliance rate was significantly higher in the conditions where participants had to estimate the value first (Exchange 2 and Exchange 3) than in the conditions where participants had to decide whether or not to donate first (Donation and Exchange 1), $\chi^2(1) = 12.65, p = .0004$. Moreover, the compliance rate
was not significantly higher in the exchange condition in which the donation question was asked first (Exchange 1) than in the simple donation condition (Donation), LR $\chi^2(1) < 1$, ns. The compliance rate was significantly higher in the exchange conditions in which a value question was asked first (Exchange 2 and Exchange 3) than in the exchange condition in which the donation question was asked first (Exchange 1), LR $\chi^2(1) = 5.58$, $p = .02$.

In an additional analysis of the exchange conditions we also included the estimated value (i.e. shop value or ‘here and now’ value dependent on the condition; logarithmic transformed) as a covariate. This ANCOVA revealed a significant positive effect of the estimated value on the contribution size, $F(1,63) = 31.50$, $p < .0001$: The higher contributors estimated the product value, the more they contributed.

5.2.2. Contribution revenues

Since within-condition donations were not normally distributed, we analyzed the donation amounts of the participants who made contributions non-parametrically ($N = 89$; two outliers were excluded from analysis using ±3 SD). We conducted a Kruskal–Wallis test with amount as the dependent variable and experimental condition (four levels) as the independent variable. A main effect of experimental condition was obtained, $\chi^2(3) = 12.82; p = .005$. Subjects in the simple donation condition donated significantly more, $\chi^2(1) = 11.27; p = .001$, than those in the exchange conditions.

In an additional analysis of the contributions in the exchange conditions ($N = 67$ contributors), we again included the estimated value (i.e. shop value or ‘here and now’ value dependent on the condition; logarithmic transformed) as a covariate. This ANCOVA revealed a significant positive effect of the estimated value on the contribution size, $F(1,63) = 31.50$, $p < .0001$: The higher contributors estimated the product value, the more they contributed.

5.3. Discussion

Overall, participants were more likely to donate when offered an exchange than when no exchange was presented. Intriguingly, within the exchange conditions, participants appeared more likely to donate when they first had to estimate the value of the exchange.
than when they first had to indicate whether they would donate or not. In addition, in the exchange conditions where participants had to estimate the value first, the likelihood of donation decreased as the estimated value went up. In the exchange condition where participants first had to decide whether or not to donate, the estimated value was not related to the outcome of the donation decision.

Possibly, in a donation situation, people try to construct some minimally socially acceptable anchor point against which candidate contribution amounts are compared. As the magnitude of that lower anchor increases, the magnitude of the contribution will increase, but the probability of compliance will decrease (cf. Fraser et al., 1988). Indeed, the higher our participants estimated the value, the less likely they were to comply with the donation request, but the more money they were planning to donate if they did decide to donate.

Asking participants to estimate the value of the product before they decided to donate may have cued a ‘donation anchor’. The product value (shop value or the value participants think it is worth to them on that very moment), probably functioned as a reference price and gave people an indication of the expected donation amount. In addition, as the product was rather inexpensive, the donation anchor was for most participants sufficiently low to persuade them to donate. In the simple donation condition, participants may not only have had more difficulty to construct a donation anchor, they also may have constructed a more elevated donation anchor. Two pieces of evidence support this assumption. First, the variance of the donation amount (logarithmic transformed) was much higher in the simple donation condition (SD = .34) than in the exchange conditions (SD = .22): $F(1, 87) = 7.21, p = .009$ (Levene’s test for equality of variances). Second, for the donating participants, donation amount was significantly higher in the simple donation condition than in the exchange conditions. In fact, the mean amount donated in the simple donation condition was rather elevated ($M = €12.2$). Many participants in the simple donation condition presumably overestimated the ‘cost’ of donating, and hence decided not to donate. This is consistent with the assumption that participants in the simple donation condition lack an anchor that informs them about an acceptable donation amount. In the exchange condition, such an anchor is provided by the shop value or ‘here and now’ value (whichever is measured) of the product that is offered in exchange for the donation.

One potential alternative explanation for the findings in Study 1 deserves mention. The fact that people donate more easily when they first have to estimate the product value, may be similar to a foot-in-the-door effect. The foot-in-the-door paradigm suggests that compliance breeds compliance. Having agreed to an initial request, individuals infer that they are helpful and cooperative. When subsequently confronted with a second and larger request, people are more likely to comply so as to maintain a consistent self-image. In our experiment, the value estimation question might have functioned as the first modest request, which was then followed by the second and larger donation request. Although we doubt the validity of this alternative explanation because answering a value question is hardly comparable to a compliance request, we try to rule it out by collecting additional data in Study 2.

6. Study 2

Study 2 provides a more critical test of our hypothesis that people donate more easily when their attention is drawn to a low product value. In addition, we also test whether an exchange can be ‘overpriced’ and consequently, can inhibit people from donating
compared to a simple donation baseline condition. Finally, in the current study, participants have to make a real donation decision, rather than a decision in a scenario. That is, if they decide to donate, they actually have to give some money.

As the type of product did not matter in Study 1, we use only one product (colored paperclips; €0.50 real shop value) in the exchange condition. To test our hypothesis, we manipulate the value of the paperclips (€3 versus €0.50) in the donation request. We hypothesize that the €0.50 paperclips will signal a ‘fair’ donation price, a socially acceptable anchor which will persuade people to donate. The €3 paperclips, on the other hand, can represent too large an anchor that does not induce but rather inhibits people to donate compared to the simple donation context.

6.1. Method

6.1.1. Participants

Participants were 184 undergraduates (from several majors), who were paid €7 for their participation in a number of unrelated experiments, ending with the current study.

6.1.2. Material and procedure

Participants were invited to the lab in groups of at most eight people. In a brief introduction they were told that they would participate in a series of unrelated experiments. At the end of the session when participants had been paid €7, registered and thanked for their participation, they received an envelope with the invitation to donate. They were asked to have a look at it in their cubicle before leaving the room. The letter explained that the Marketing Department had organized its annual donation drive, and that all marketing students and experimental participants were being given the chance to make a donation as well. The money would go to ‘an organization that delivers basic medicine for Africa, Asia, and Latin-America’, as in Study 1.

Participants were randomly assigned to one of four experimental conditions: They were invited (1) to just donate (simple donation condition), (2) to donate in exchange for paperclips without a shop value mentioned (no value exchange condition), (3) to donate in exchange for paperclips with a mentioned shop value of €3 (€3-exchange condition), (4) or to donate in exchange for paperclips with a mentioned shop value of €0.50 (€0.50-exchange condition). This shop value was mentioned between brackets after the description of the offered product. In the exchange conditions, the product (colored paperclips) was included in the envelope. Participants were told that they could take the product home when donating some money; any amount was said to be appreciated. To make any donation between €0.50 and €7 possible, the €7-endowment was paid in coins of €0.50, €1, and €2. Finally, all participants were asked to close the envelope and leave it in the donation box at the entrance of the laboratory. This donation box was used to increase the feeling of anonymity. Donations were actually contributed to ‘Médecins Sans Frontières’ (Doctors Without Borders).

6.2. Results

6.2.1. Compliance probability

A logistic regression with donation (yes versus no) as the criterion, and experimental condition as the categorical predictor (with four levels), confirmed our hypotheses. Com-
compliance varied significantly across the experimental conditions, $\chi^2(3) = 12.23, p = .007$ (see Table 2). The compliance rate was significantly higher in the €0.50-exchange condition than in the simple donation condition, $\chi^2(1) = 5.63, p < .02$. In contrast, the compliance rate was slightly lower in the €3-exchange condition than in the simple donation condition, although the difference did not reach significance, $\chi^2(1) < 2, \text{ns}$. In summary, we found evidence for the moderating role of the price of an exchange in triggering potential donors. Price does matter; the compliance rate was significantly higher in the €0.50-exchange condition than in the €3-exchange condition, $\chi^2(1) = 11.05, p = .0009$.

Although the compliance rate was slightly more elevated in the no-value exchange condition than in the simple donation condition, this difference was not significant, $\chi^2(1) < 2, \text{ns}$. 

6.2.2. Contribution revenues

Again, since donations were not normally distributed, a non-parametric analysis was applied. We conducted a Kruskal–Wallis test on the data of the donating participants ($N = 102$) with donation amount as the dependent variable and experimental condition (four levels) as the independent variable. The amount donated was affected by the experimental condition, $\chi^2(3) = 16.8, p = .001$. Not surprisingly, the participants in the €3-condition donated on average more than those in the other conditions. The other conditions did not significantly differ.

6.3. Discussion

In this study, the ‘exchange’ effect appears to be dominated by the price of the token. In line with Study 1, the €0.50-token signaled a comfortable reference price, leading to an elevated compliance rate. However, as the price of the token increased to €3, the compliance rate plummeted. For larger donation requests to be effective, they have to be perceived as lying within a plausible range for donation (Doob & McLaughlin, 1989). Whereas €3 is often used as a real donation price for products offered by NGO’s, many students in this context (they had just worked for an hour to receive €7) may not have perceived the €3 as lying within a plausible range of acceptance. In line with this assumption, the justice motive theory (Lerner, 1986) would suggest that participants thought of €3 as being a threat to their own outcomes.

Finally, when looking at the results of Study 2, the alternative foot-in-the-door explanation of Study 1 seems to be no longer valid. In Study 2, there was no initial value estimation that could have functioned as a first modest request. In that sense, the estimated value in Study 1 has the same anchoring function as the mentioned shop value in Study 2: Whether participants first have to estimate the product value (Study 1) or whether the

<table>
<thead>
<tr>
<th>Value of exchange product</th>
<th>Simple donation</th>
<th>Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N/A ($n = 52$)</td>
<td>No value ($n = 46$)</td>
</tr>
<tr>
<td>Donation rate</td>
<td>50%</td>
<td>61%</td>
</tr>
<tr>
<td>Non-zero mean amount</td>
<td>€1.46</td>
<td>€1.93</td>
</tr>
<tr>
<td>Total revenue given $n = 100$</td>
<td>€73</td>
<td>€117.7</td>
</tr>
</tbody>
</table>

Table 2
Donation rate and mean amount donated as a function of experimental condition
value is already mentioned, people donate more easily when they are presented with a low product value, as opposed to an exchange setting in which no price indication is present.

7. Study 3

In Study 1, some participants in the exchange conditions were asked to estimate the value of the product before deciding to donate. This apparently gave them a comfortable reference price, a rather low ‘donation anchor’. In the simple donation condition, on the other hand, participants lacked a donation anchor; they had problems in estimating a ‘fair’ price, and seemed to construct a more elevated donation anchor. In Study 2, we found that the compliance rate in exchange conditions critically depends on the price of the token. If the token price is sufficiently low, compliance with a donation request increases relative to a simple donation situation. If the token price is rather high, compliance with a donation request does not significantly change relative to a simple donation situation.

To the extent that the sale of a token simply signals an expected donation amount, one might wonder whether influencing compliance rates requires an exchange at all. In fact, providing people with an explicit low reference price in a simple donation setting might be enough to cause comparable results to the low priced token exchange in Study 1 and 2. By the same reasoning, similarly low compliance rates as in high-priced exchange conditions may be obtained when donation requests are accompanied by an explicit high reference price. These issues are addressed in our third study.

7.1. Method

7.1.1. Participants and design

A total of 196 undergraduates participated in this between-participants computerized questionnaire study. The questionnaire was part of one hour session of unrelated experiments in the lab. Participants were paid €6 for completing the entire questionnaire packet.

7.1.2. Procedure

We told participants we were investigating their donation behavior. The general instruction read as follows: ‘To be able to adjust the annual donation drive of the Marketing Department, we want some feedback concerning your donation preferences. You will be presented with 10 different hypothetical situations. Please try to indicate for each situation whether you would donate or not.’ All scenarios explained that the Marketing Department each year organized a donation drive and that all marketing students and experimental participants were given the chance to make a donation as well; after an experimental session participants were supposedly approached to make a donation.

Participants were randomly assigned to one of five experimental scenarios. In the simple donation scenarios, they were asked to indicate whether or not they would donate and if so, how much. In the low and high-priced donation condition they were asked whether or not they would donate €0.50 or €3. In the low and high-priced token condition they were asked whether or not they would donate in exchange for a €0.50 or €3 token, respectively. All scenarios were repeated 10 times, using 10 different charities in all conditions and 10 different products in the exchange conditions. The pairing of charities and products was randomized for each participant in the exchange conditions separately.
7.2. Results

7.2.1. Compliance probability

We conducted a logistic regression with the proportion of ‘yes’-responses as the criterion, and experimental condition (five levels) as the predictor. A significant main effect of experimental condition was obtained, LR $\chi^2(4) = 107.72$, $p < .0001$ (see Table 3). As expected, participants in the low priced conditions (donation and exchange) were more likely to comply than people in the high-priced conditions, LR $\chi^2(1) = 67.96$, $p < .0001$, and than people in the simple donation baseline condition, LR $\chi^2(1) = 65.83$, $p < .0001$, respectively. As in Study 2, however, the frequency of compliance in the high-priced conditions did not significantly differ from the simple donation baseline condition, LR $\chi^2(1) < 2$, ns.

Unexpectedly, the proportion of participants agreeing to offer money was greater in the priced donation conditions (low and high) than in the priced exchange conditions (low and high), LR $\chi^2(1) = 14.71$, $p = .0001$. Moreover, the compliance rate was significantly higher in the high-priced donation condition than in the simple donation condition, LR $\chi^2(1) = 7.59$, $p = .0059$. The compliance rate did not significantly differ between the high-priced exchange condition and the simple donation condition, LR $\chi^2(1) < 1$, ns. Finally, the difference between exchange and priced donations was comparable for a high (€3.00) and low price (€0.50), LR $\chi^2(1) < 1$, ns.

7.2.2. Contribution revenues

In the current study, only in the simple donation condition, participants could decide on the amount they were willing to donate. As in Study 1, the large variance (SD = 11) of the donation amount in the simple donation condition is consistent with our assumption that potential donors, in the absence of an anchor (i.e. an exchange), experience problems in determining a socially acceptable donation amount. Many participants presumably overestimate the ‘cost’ of donating (M = €8.8) and hence decide not to donate at all. The other four conditions exhibit fixed prices and participants could not alter this amount. Contrary to the first two studies, participants received no instruction that any amount would be appreciated. In that sense, analyzing the contribution revenues in the current study yields no additional insight.

7.3. Discussion

The data support our hypothesis that bundling simple donations with fixed prices would generate similar results as bundling donation requests with priced tokens. The
presence of a small or large reference price in a simple donation setting can apparently fulfill the same ‘anchoring’ function as the sale of a token. Moreover, our data show that ‘priced’ donation requests are met with an even higher compliance than the corresponding exchange conditions. Most counter-intuitive is the fact that the high-priced donation request yields significantly greater probability of compliance than the simple donation condition. As for the high-priced exchange request, we notice a small but insignificant drop in compliance compared to the simple donation setting. We assume therefore that it is not the high price in itself which seems to be responsible for the low compliance rate in the high-priced exchange condition, but a high price in exchange for a near-worthless token. Rather than pure economic reasons, feelings of exploitation (Miller & Ratner, 1998) or the norm of self-interest may be part of the excuse for not donating in exchange for high-priced tokens: ‘The postcard presumably is less expensive in the supermarket’. Bundles of simple donations and fixed prices possibly entail a smaller risk that potential donators feel exploited.

8. General discussion

Three studies support the idea that adding exchange to charity can provide potential donors with an anchor or expected donation amount. People react positively to donation requests that are framed as the sale of tokens, if the tokens signal a low anchor amount, a ‘fair’ price. In a simple donation setting, people lack a reference price. In their attempt to estimate a socially acceptable donation amount, many overestimate the cost of giving and thus decide not to donate. Therefore, the offer of a token can signal a reference price or an anchor to which other donation amounts may be compared (Fraser et al., 1988). A ‘low’ socially acceptable anchor will urge people to donate as it signals a ‘fair’ price and leaves people feeling ‘trapped’ in a good deal. A ‘high’ socially unacceptable or too large an anchor, on the contrary, may inhibit people from donating.

In our studies, we did not seek to investigate if and why tokens in general (with or without a reference price) would affect donation decisions. In that context, it should be noted that our studies were not designed to rule out the exchange fiction theory of Holmes et al. (2002), which states that adding exchange to charity provides potential donors with a ‘psychological cover’ that enables them to act altruistically while still complying with the norm of self-interest. In fact, our first two studies are still in line with the theory of the norm of self-interest (Miller, 1999). Still, our anchoring explanation gives an additional account for why people react positively to the sale of tokens in a donation request. Moreover, Study 3 shows that, as expected by our anchoring explanation, a donation request that explicitly asks for a low amount generates more compliance than a simple donation request. Just as an exchange can ‘help or hurt’ depending on its price, a combined use of simple donations and specified contribution amounts can similarly influence compliance rates. This finding cannot be accommodated by Holmes et al.’s exchange fiction theory. Nevertheless, our anchoring explanation is not incompatible with the Justice Motive Model of human motivation (Lerner, 1986) that underlies the exchange fiction theory. The justice motive predicts that if people are given the opportunity to help innocent victims and if doing so will not threaten their own deserving, then people will be highly responsive. In other words, once people are reassured (for example by a low reference price) that their personal outcomes are not in jeopardy, it seems easy to induce them to donate.
The reverse effects of reference price on compliance probability and contribution per contributor indicate that a lot of thought should be given to the reference price that is signaled in order to optimize total revenue. For instance, in exchange situations, if the token is perceived as being ‘overpriced’, people may be inhibited from donating, possibly due to feelings of exploitation or the norm of self-interest. A participant’s post experimental reaction demonstrates this: “This is very odd, I would rather just donate €3 than to buy a useless postcard!” This is consistent with the observation that offering a product in exchange for a donation may activate self-serving motivations and ‘economic’ thoughts about the usefulness of the product; whereas simply asking for a donation could set in motion more social equity concerns (Van Dijk, 2003). From practical point of view, in that sense, bundles of simple donations and fixed prices are perhaps the safest option. In those settings, people know that their money in its entirety would be given to the described charity whereas in the exchange setting the actual cost of the product remains somewhat ambiguous. The transparency in donation settings with specified prices may be the reason why priced donations work even better than the offer of an exchange (see Table 3). Moreover, in donation settings with specified prices there is also no product cost that needs to be subtracted from overall revenue. In all, then, donation settings with specified prices may generate higher revenues than the sale of small products.

Finally, we like to rule out that people donate more easily in exchange for a product compared to a simple donation setting out of reciprocity concerns. When there is reciprocity (Cialdini, 2001) you receive something first and then you feel obliged to donate something in return. For example, Falk (2004) found strong and systematic effects from including gifts in donation letters: The relative frequency of donations increased by 17% when a small gift was included and by 75% for a large gift. In our experiments, however, you are openly asked to donate in exchange of a product. The transaction is immediately proposed. This implies that a reciprocity explanation cannot account for our findings. Moreover, if reciprocity would be part of the process, we would at least have to find a significant difference between the simple donation condition and the no-value exchange condition, and this was never the case in our experiments.

9. Caveats and future research

The first limitation of our research is that two of our three studies were scenario studies and did not measure real behavior. Nevertheless, the compliance rate (our main dependent variable) is quite comparable across the three experiments. On the other hand, the mean amount donated in the simple donation condition was substantially higher in our scenario studies (Studies 1 and 3), than in our study that entailed real behavior (Study 2). This finding is consistent with the notion that people do not always have a perfect insight in how they would behave in certain situations (e.g., Nisbett & Wilson, 1977) and important to keep in mind when comparing the total revenues of the three experiments.

A second limitation is that our participants were all college students. It is important to assess the validity of our findings across other populations. In any event, our results appear to be stable across sexes. Integrating the findings of Brockner et al. (1984), Cialdini and Schroeder (1976) and Fraser et al. (1988), we note that the size of the anchor points may change over time due to inflation and are probably population dependent (e.g. dependent on income: students versus business men). Accordingly, we suggest the €3-token condition might result in different compliance rates in another population and/or several years from
now. In that sense, it would be worthwhile for charities to ‘know’ their different donor types to be able to segment the donor database according to the size of the anchor points influencing donors’ decisions. Additionally, the charity might even decide to cut or raise donation prices depending on the organization’s marketing strategy, for example reaching a critical mass of ‘small’ donors or only a select group of ‘large’ donors.

Third, it is possible that the application of charity related tokens, which the donor can use to ‘signal’ his social reliability (e.g. an HIV ribbon or an Amnesty candle), would generate different results. In this case reputation concerns might be involved in the donation decision (Milinski, Semmann, & Krambeck, 2002).

An interesting avenue for future research would be to test whether priced donation requests, compared to simple donation requests, can also improve response rates in a direct mail context. For example, although legitimizing small contributions significantly increased the number of donations in a door-to-door charity drive (Cialdini & Schroeder, 1976), this technique failed to boost compliance rates in a direct mail fund-raising (DeJong & Oopik, 1992). There is evidence that donations in a direct mail campaign can be strongly influenced by choosing appropriate quantities in the request (Desmet & Feinberg, 2002), but so far these appeal scales have not been tested against a simple donation setting.

In this research, the charities we used were rather major and well-known in the country. It would be interesting to investigate whether Sinha and Batra’s finding (1999) that consumers are more price conscious when they perceive price unfairness by national brands (which results in private label purchases), also holds for charities. If consumers are also more price conscious when they perceive price unfairness by national charities, well-known national charities would have to pay extra attention when determining their token prices. Moreover, local charities (e.g. local basketball team) then may even have a competitor’s advantage of using ‘higher’ prices before being perceived as ‘unfair’.

Finally, in our studies, participants’ donation decisions were influenced by an informative anchor and participants were probed to consider the anchor as a possible donation value. Future research should also explore whether similar results can be obtained by means of ‘basic anchoring’. Basic anchoring is the situation in which people’s judgements of a target are influenced by a numerical anchor that is completely uninformative (e.g. a number generated by a wheel of fortune) and where people are not asked to consider the anchor as a possible target value (cf. Wilson, Houston, Etling, & Brekke, 1996). Suppose, for example, that students before answering the donation request had just written down the price of a beer, which happens to be €1.50. Would this unrelated and uninformative small numerical anchor induce them to donate? Feinberg (1986), for example, found more people donating a larger amount when a credit card donation option (i.e. a ‘spending’ cue) was present. Feinberg’s finding may be explained by the fact that a credit card signals a large but unspecified amount, that is, a vague indication of an expected contribution that could not be perceived as lying ‘outside’ the plausible range of acceptance.

10. Epilogue

Each day people perform acts of altruism. To economists this phenomenon is difficult to explain: If people are all selfish utility maximizers, why should they make sacrifices for others? Several explanations have been proposed to address this question. These include the desire to experience a ‘warm glow’ (e.g. Isen & Levin, 1972), a need to view oneself as good and kind (Walster, Berschield, & Walster, 1973), an aspiration to ‘do the right thing’
a quest for moral satisfaction (Kahneman & Knetsch, 1992), or a signal of social reliability to gain indirect reciprocity or political reputation (Milinski et al., 2002). What these explanations all have in common is the underlying assumption that helping other people gives you something in return. This suggest that one way of thinking about charitable giving is to view potential donors as consumers seeking some return utility from donating money. However, because they are already buying something ‘immaterial’ (e.g. a warm glow), perhaps we do not need to offer them an additional material good (e.g. a candle). Crucial in the marketing of donations is to make the transaction as smooth as possible. We should offer them an indication of a comfortable expected donation amount. In other words, we should just ‘name them a price’ as long as this is appropriate and fair.

Acknowledgement

The authors are grateful for the many thoughtful suggestions of the associate editor and the two reviewers.

The authors also thank Dirk Smeesters and all members of the consumer behavior group at the K.U. Leuven for their comments on an earlier version of this manuscript.

Financial support from grant g.0260.02 of the Fund for Scientific Research – Flanders (Belgium), from Belgian Science Policy grant CP01/151, and from Censydiam-Synovate is gratefully acknowledged.

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