The Counterintuitive Effects of Thank-You Gifts on Charitable Giving

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Six studies examined the effects of thank-you gifts on charitable giving. Results indicate that although people have the strong prediction that the offer of thank-you gifts should increase donations, such offers actually reduce charitable donations both in terms of the average amount donated per individual as well as the total amount donated.

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EXTENDED ABSTRACTS

“Micro-financing Decisions”
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A recently-hyped effort to alleviate world poverty has emerged in the form of micro-financing, or small loans made to small businesses and entrepreneurs in developing countries. These types of loans have provided $25 billion in small collateral-free loans to the poorest of the poor. Given limited lending capital, a system of direct-to-borrower financing has been established to allow individuals to make uncollateralized loans to individuals and small businesses in need. This contemporary form of helping the poor has won favor because it appeals to economically-minded individuals who believe that supporting entrepreneurial endeavors will spur growth and thus do more good than traditional charitable giving (Yunus, 1999).

If micro-finance is indeed a more sensible solution to poverty, an important question is whether people who lend money are, in fact, behaving sensibly by making decisions that maximize social welfare. Recent research emphasizes the distorting impact of emotions on rational decision making. Much of this research focuses on choices for which the outcomes primarily affect the chooser’s welfare. However, emotions can also bias decisions where the outcomes affect social welfare. For instance, when people donate to charity, emotional responses to victims and situations do not map onto the gravest needs. Specifically, all else being equal, people are more likely to donate to a single individual than to a group of individuals (Kogut & Ritov, 2005a; Kogut & Ritov, 2005b). A single individual in need is more vivid and emotionally-compelling than multiple or statistical victims (Small & Loewenstein 2003; Small, Loewenstein, & Slovic, 2007). This is often sub-optimal because more people can benefit when resources are shared rather than concentrated on a single person.

Similarly, micro-finance loans to groups should be more beneficial than loans to individuals. However, our evidence suggests that lenders do the opposite. We analyzed micro-finance lending data from Kiva.org, a non-profit organization that links individual lenders and needy borrowers, who can be either individuals or groups. Lenders have full information about each loan request including information about the borrower(s) and the number of people in the borrower group. Lenders evaluate borrowers’ requests and decide to whom and how much to lend (starting at $25). We analyzed 371,521 loans made to 23,024 borrowers (individuals or groups; size M=1.37, SD=1.17, min.=1, max.=20) between November 27, 2007 (the first day Kiva allowed group borrowers), and June 18, 2008.

We find two independent conclusions to support the contention that lenders are biased towards individual borrowers. First, we observe that it takes less time to fill a loan if it is requested by an individual. Second, we observe that as group size increases, the amount loaned (calculated as a proportion of the remaining loan available to fund) decreases non-linearly. As the size of the borrower group increased, loan sizes decreased exponentially. Hence, individual borrowers were more likely fund their loans faster and to receive larger loans than groups of borrowers acting as a consortium.

A second analysis on a similar data set revealed that lenders are more likely to lend to borrowers whose social distance is minimized (Flippen et al., 1996; Hewstone et al., 2002). After coders (on Amazon’s mTurks system) parsed the names, gender, and occupation of 163,736 unique lenders, we were able to analyze the similarity between lenders and borrowers on these three dimensions (lender information was provided by Kiva.org). We observed a similarity effect for all three. Specifically, lenders were more likely to lend to borrowers who share their gender, occupation, and even, strikingly, the same first initial (Pelham et al., 2002). Though not specifically a bias, these results suggest that when lenders make decisions regarding whom to lend to, their decisions are influenced by factors other than optimal helping.

Because of the large volumes of money being distributed, as well as the gravity the problem of world poverty that micro-finance is purported to help solve, it is important to understand lending behaviors. Our evidence suggests a strong preference for (and perhaps bias toward) individual borrowers. This preference is apparent despite the logical argument that helping groups of individuals should be better both in terms of the number of people benefiting from the loan and the likelihood of successful loan repayment. Additionally, our evidence suggests that lender have a preference to lend borrowers who are similar to themselves, suggesting that loan distributions may be sub-optimal.

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In 2007, Radiohead, an enormously popular British rock band, released its most recent album through their website and allowed their fans to download the album for any price they chose to pay (including $0). This pay-what-you-want (PWYW) pricing set of a cascade of media coverage, but relatively few certain answers to the most obvious questions: was the mechanism profitable and was it more profitable than a traditional release? If you let your customers pay as little as they want is there any reason that they would pay enough to make it a good decision?

We first considered these questions by seeking data from other companies who tried PWYW pricing. We received 15 months of download data from an independent artist who, like Radiohead, had released its album at PWYW (Study 1). Results indicated that the sale had an enormous influence on demand as over 600,000 people downloaded the album and generated nearly $1 million in revenue. Both figures dwarfed previous releases by the same artist. A second set of field data (Study 2), this time from a video game developer, told a similar story: in just two weeks the company saw more than 80,000 downloads, and nearly $200,000 in profits. Both were considerably more than a typical two week period for the company.

These data provided a sense that PWYW may be a profitable business strategy, but they did not necessarily provide evidence that it was a better business strategy than a more traditional alternative. By any traditional logic, PWYW would surely be considerably less profitable. We conducted a field experiment to try to answer this question (Study 3). A tour boat company photographed customers as they boarded the boat, printed the photos while the customers were at sea, and then posted them for sale at the point of disembarkation. The company traditionally sold the photos for $15, but during the
experiment some boats were randomly assigned to either a control condition ($15), a low-price condition ($5), or a PWYW condition. These three radically different prices were nearly identically profitable (with PWYW being slightly ahead of the other two). Even when given the opportunity to pay nothing for a novelty photo, people chose to pay enough to make it quite profitable for the firm. Most interestingly however, was the discovery that customers were less likely to purchase the photo at PWYW than they were at $5. We reasoned that this occurred because the social pressures of PWYW (e.g., “I don’t want to look like a cheapskate!”) drive people either to pay more or to not buy at all. Could the same social pressures be manipulated to drive prices even higher?

If people are concerned about looking fair in a traditional exchange, certainly they must feel doubly so when dealing with a charitable organization. We conducted a field study at a large amusement park (Study 4) in which participants (n=116,834) rode a rollercoaster-like attraction, were photographed during the ride, and later chose whether to purchase a print of the photo. A 2x2 between participants design crossed the photograph price (either the regular $12.95 price or PWYW) with a charitable giving promotion (either no charity or half of the revenue went to charity). Purchase rate was low and similar in the two fixed $12.95 treatments. PWYW increased purchase rates by an order of magnitude in PWYW with charity, and was twice as high again in PWYW without charity. However, people paid significantly more per photo when half of the revenues went to charity than with no charity (t(3535)=43.24, p<.001). PWYW, when combined with a charitable partner, was the most profitable condition for the company (by more than $50,000 a year) and it led to a substantial charitable surplus (nearly $1 million per year).

Pay-what-you-want pricing is certainly not for all firms, but as witnessed in these four studies, under the right circumstances it can lead to sustainable profitability and charitable giving.

“The Counterintuitive Effects of Thank-you Gifts on Charitable Giving”
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Donations are one of the largest sources of revenue for most nonprofits and charities and, as a result, a great deal of research in psychology, economics, and marketing has explored what factors encourage charitable giving. In this paper we focus on the effectiveness of offering small ‘thank-you’ gifts, such as a pen, coffee mug, or tote bag, as means of soliciting charitable donations. Given the ubiquity of these kinds of requests (e.g., National Public Radio fund-drives) and the real-world consequences of their effectiveness (or ineffectiveness), it is critically important to directly investigate this issue. Yet, despite decades of research on the relationship between external incentives and altruistic behavior, whether such offers do in fact increase charitable donations is unclear.

As an initial test of people’s lay beliefs, we asked adults to predict whether a thank-you gift (a pen bearing a PBS logo) would encourage people to donate more, less, or the same amount to public broadcasting compared to a donation request that did not offer a thank-you gift. The majority of participants (68%) predicted that thank-you gifts would increase donation amounts. Analogously, participants predicted that the group who was offered a thank-you gift would donate significantly more money than the group who was not.

In Study 2, a new group of adult participants were presented with the same materials as in Study 1. However, the presence or absence of a thank-you gift was manipulated between-subjects. In stark contrast to Study 1, participants who were simply asked for a donation (without any offer of a thank-you gift) were willing to donate significantly more than participants who were offered a thank-you gift. Moreover, the total amount of money donated was also higher in the no-gift condition than in the gift condition. Thus, despite people’s predictions, the offer of a thank-you gift actually decreased donations both in terms of the average amount per individual as well as the total amount donated. Moreover, such counterintuitive patterns were not due to changes in beliefs about the importance of the charitable cause or to explicit beliefs about the influence of thank-you gifts.

Study 3 replicated this effect using actual donations, rather than hypothetical ones. In this experiment, participants were asked to donate a percentage of their winning from a lottery to the Save-the-Children foundation. Replicating the previous experiment, participants who were offered a thank-you gift, donated significantly less compared to participants who were simply asked for a donation.

One explanation this effect may be that participants inferred that the gift was undesirable because it was free (Kamins et al., 2009; Simonson et al., 1994). To test this possibility, Study 4 had three conditions: a desirable gift (a box of chocolates), an undesirable gift (an ugly tie), as well as a no-gift control. As expected, participants rated the chocolates as significantly more desirable than the tie. However, despite this difference in gift desirability, participants in the no-gift condition were willing to donate significantly more than participants in both the desirable-gift condition or the undesirable-gift condition. Donation amounts in the two gift conditions were not statistically different. Thus, the negative effect of thank-you gifts does not appear to be due to the undesirability of the gift offered.

An alternative explanation is that in assessing the value of the gift participants may have generated a relatively low value that anchored the subsequent amount participants were willing to donate. We tested this explanation by offering participants either an expensive gift (nice pen), an inexpensive gift (cheap pen), or a no-gift control. Despite the difference in gift value, however, participants in the no-gift condition were willing to donate significantly more than participants in either the expensive-gift or cheap-gift conditions. The two gift conditions were not statistically different. Thus, direct manipulation of the gift value within the same experiment did not alter donation amounts and in fact, we observed slightly higher donation amounts in exchange for a less (rather than more) expensive gift.

Study 6 examined the possibility that thank-you gifts reduce donation amounts because the external incentive undermines or “crowds out” participants’ altruistic motivations (e.g., Deci, 1975; Lepper & Greene, 1980). To test this explanation the same gift (a cloth shopping bag, bearing the organization’s logo) was framed as either something that could be used in a personally beneficial way (for shopping) or in a manner that benefitted others (to increase awareness of the cause). As in previous studies, participants in the no-gift condition were willing to donate significantly more than participants in the benefit-to-self condition. However, consistent with the crowding out hypothesis, participants in the benefit-to-others condition also donated significantly more than participants in the benefit-to-self condition. Donation amounts in the no-gift condition and the benefit-to-others conditions were not statistically different. Thus, merely reframing the gift as consistent with altruistic goals attenuated the negative effect of thank-you gifts on donation amounts.

In sum, although people have the strong prediction that the offer of thank-you gifts should increase donations, such offers actually reduce charitable donations both in terms of the average amount donated per individual as well as the total amount donated. This effect is observed across a wide variety of charities and gifts types,
regardless of whether the donations are hypothetical or real, the gift is desirable or undesirable, the charity is familiar or unfamiliar, or the gift is more or less valuable. Moreover, such patterns cannot solely be explained in terms of inferences about the charity’s quality (e.g., either their efficacy or current wealth), the undesirability of the gift itself, or simple anchoring effects. Instead, results were consistent with the hypothesis that the offer of external incentives undermines or “crowds out” altruistic motivations.

“The Prosocial Workplace: Prosocial Spending Improves Employee Satisfaction and Job Performance”
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Recent surveys indicate that employee job satisfaction is at a twenty-year low in the United States (Conference Board, 2010)–perhaps because over the same time frame, Americans spend more and more of their time at work at the expense of devoting time to pursuits known to be linked to well-being, from forming social connections to engaging in prosocial acts such as volunteering (Schor, 1991). These findings, while seemingly aligned, also raise a puzzle: For many people, the line between work and social life is blurred, from spending time outside of the office with their friends from the office, to engaging fellow employees in prosocial behavior such as selling their daughter’s Girl Scout cookies. We suggest that rather than forcing employees to make a losing tradeoff between social life and work life, employers can co-opt this tradeoff and focus instead on creating what we term a “prosocial workplace” by encouraging their employees to engage in prosocial behavior while at work. In two studies, we show that employers and employees alike can benefit by allowing employees to engage in prosocial spending–spending money on others instead of themselves–by providing them with money to spend on charities and on each other.

We base our interventions on recent research which demonstrates that individuals who spend money on others such as buying gifts for friends and donating money to charity–engaging in prosocial spending–are happier than those who spend on themselves (Dunn, Aknin, & Norton, 2008). We explore whether these individual benefits extend beyond the individual, conducting two field studies investigating whether prosocial spending lead to greater well-being, job satisfaction, and job performance. Indeed, previous research suggests that both happiness and prosocial behaviors are key predictors of success in the workplace. First, a large body of research demonstrates a link between people’s overall well-being and their outcomes in many domains of life, including success at work (Boehm & Lyubomirsky, 2008; Lyubomirsky, King, & Diener, 2005). Second, several investigations have demonstrated that employees who chose to give money to an employee support program or engaged in helping behaviors in the workplace became more committed to their organization and performed better in their jobs (Bacharach, Bamberger, & Sonnenstuhl, 2001; Grant, 2008; Grant, Dutton, and Rosso (2008). We suggest that engaging employees in prosocial spending–encouraging them to spend money on others rather than on themselves–will therefore increase their individual well-being, their satisfaction with their jobs, and their actual performance at those jobs.

In Study 1, employees at an Australian company (N=179, 58% female) were randomly assigned to receive a $50 voucher or a $100 voucher that they could redeem online to donate to a charity of their choice; a control group of participants did not receive a voucher. We measured employees’ overall well-being, as well as their satisfaction with their jobs, both prior to receiving the voucher and after redeeming it, approximately two weeks later. Compared to employees who did not receive a voucher, those who received a $100 voucher were significantly happier and reported higher job satisfaction.

But does this increase well-being and job satisfaction lead to better performance? In Study 2, we explored the impact of prosocial spending on the performance of two very different kinds of teams: Members of an intramural dodgeball league in Canada, and members of pharmaceutical sales teams in Belgium. For the dodgeball league, members of some teams were given $20 to spend on themselves (personal spending), while members of other teams were given $20 to spend on a teammate (prosocial spending). Similarly with the sales teams, members of some teams were given 15? to spend on themselves, while members of other teams were given 15? to spend on other members of their team. As we predicted, teams that had engaged in prosocial spending performed better than those that engaged in prosocial spending, across both samples. For the dodgeball league, prosocial spending teams showed an increase of the percentage of games won over the course of the season (moving from 50% to 81%) while those who engage in personal spending showed no improvement (50% to 43%). Similarly for sales teams, prosocial spending teams showed a significant increase in total sales after the intervention (going from an average of 3335? in sales to 3524?), while again personal spending teams did not improve (3928? to 3938?).

In sum, these studies demonstrate the positive impact of prosocial spending for organizations. We show that when employers build prosocial elements into the workplace by offering employees the opportunity to spend money on others–both their co-workers and those in need–both the employees and the company benefit, with increased job satisfaction, team performance, and revenues. Given that satisfaction with one’s work is an essential component of people’s overall well-being (Blustein 2008; Lucas, Clark, Georgellis, & Diener, 2004) and the previously mentioned decline in overall employee satisfaction, interventions that can improve both overall well-being and satisfaction may be timelier than ever.