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Alumni giving at a small liberal arts college: evidence from consistent and occasional donors

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Abstract

This study observed the financial giving of alumni at a small, private liberal arts college covering a 23 year period of consistent (longitudinal) and occasional donors. After observing historical characteristics of donors, college officials have a greater probability of accurately predicting future alumni gifts. Key determinants of alumni giving for both consistent and occasional donors are as follows: volunteering for the college, major in a social science division, language school attendance, residence in states with alumni chapters, and employment within the financial sector. Additionally, alumni with relatives who have attended the college, and alumni who have played a varsity sport during college, are two groups very likely to donate. Our study suggests that Alumni Offices may benefit from rating donors' giving potential (and subsequently focusing on these individuals), extensively publicizing reunions, and by targeting those who volunteered during their college years. Among occasional donors, Alumni Offices may want to target males, fraternity/sorority members, and alumni who are close to retirement.

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1. Background

A number of factors have combined to compel private institutions of higher education in the US to rely ever more heavily upon financial donations from their alumni. It has long been the case that government appropriations — federal, state and local — at private higher education institutions are a minimal percentage of total funding. Not only are contributions to total funding from these sources minimal, but they are declining. Consequently, private donations to private baccalaureate institutions (like the one studied here) are supplementing government shortfalls[1]. Among private donors, corporate gifts (when they are available at all) are increasingly targeted at prestigious schools that promise a significant quid pro quo, such as favored access to prospective employees[2]. Table 1 illustrates the increasingly

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[1] It is clear from Appendix A that private gifts and grants are a major source of outside funding for private baccalaureate institutions relative to public baccalaureate institutions.

[2] Some scholars have observed a recent corporate trend of giving financial gifts to fewer academic institutions in order to get something in return. Often that something in return is access to prospective employees. Accordingly, corporations are connecting with fewer and fewer academic institutions — only those programs which match their interests. Privately, some observers wonder whether small, liberal arts colleges (which neither offer the array of programs that large research institutions offer, nor the vocational training offered by two-year

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important role alumni are assuming in the financial support of institutions of higher learning. Further, in an increasingly competitive educational environment, where schools compete for the best applicants, alumni donations often fund attractive extracurricular programs such as sports programs and expanded educational programs. Given the trends outlined above, it is essential that those in charge of soliciting alumni for donations better understand the common alumni characteristics which may help them predict donor potential.

Although a school may have a vast pool of alumni, not all alumni are financially generous to their alma mater for one reason or another. Thus the alumni office is faced with the task of targeting potential donors and accurately and efficiently honing its efforts[3]. This study outlines the relative importance of certain donor characteristics of both consistent and occasional gift givers for a small liberal arts college. Even though our data indicate that consistent donors give more on average, occasional donors greatly outnumber the consistent donor group; thus, it is important to understand both groups of donors. Alumni offices from comparable institutions could benefit from this research in their fundraising efforts.

2. Review of literature

Several avenues exist for modeling charitable giving. A first approach examines the economics of charity based on the theory of consumer demand for a non-durable good or service. This approach focuses on the price and income effects of voluntary charitable giving (Feldstein & Taylor, 1976) and also enables researchers to evaluate how changes in tax policy affect the level of charitable contributions. Glenday, Gupta and Pawlak (1986) estimated the price and income elasticities of demand for charitable donations in Canada, which were used to analyze the 'cost-effectiveness' of tax incentives for donations. Jones and Posnett (1991), utilized 1984 Family Expenditure Survey (FES) data to observe the determinants of charitable giving in the UK. Their work, which was the first to use UK data, presented an interesting distinction. They found separate determinants of participation and amount of giving. The probability of participation was determined to be dependent on household income, the tax-price of charitable giving, education, sex, and the head of the household's employment status. However, the donation size responded only to household income.

A second approach examines factors that affect giving based on the degree of donor involvement in higher institutions. Donor 'involvement' may be characterized in many ways, including: formation of attitudes based on reading alumni publications, following successful sports programs, and the impact of relatives attending an institution. For example, perceived need for financial support, reading alumni publications, and subsequent enrollment for graduate work, are cited as determinants of alumni giving (Taylor & Martin, 1995). A few recent studies examine the success of sports teams as a factor that determines alumni giving. After controlling for characteristics of incoming students, characteristics of the institution, the effort the institution makes to solicit alumni giving, and the success of the school's football and basketball teams, Baade and Sundberg (1996a) conclude that winning records do not automatically boost alumni giving, but football bowl game appearances do result in significantly higher gift totals. Grimes and Chressanthis (1994) showed that after controlling for the population of alumni, student enrollment, state appropriations, and per capita income, the contributions were positively related to the overall winning percentage of the intercollegiate sports program. Okunade (1993) analyzed the likelihood of business school alumni giving donations to their alma mater. Using maximum-likelihood estimates, he determined that numerous variables had a strong and positive relationship with alumni giving. Some of those variables are: specific fields of major and other family members graduating from the university. Finally, Connolly and Blanchette (1986) identify discriminant analysis as the ideal technique to first, isolate *aggregate* alumni giving behavior, and then, predict individual giving. Their study determines that among young alumni, loyalty motivates giving rather than capacity to give. Further, among large gift donors, information on fellow classmates (with an eye toward reunion years) and an interest in the *potential gift-giver* activities are motivating factors for giving.

A third group of studies examines the effect of altruism (impure altruism) on charitable giving. Even though altruism theories predict that giving is purely a philanthropic and/or sympathetic motive (Kennett, 1980; Ribar & Wilhelm, 1995; Batson, 1990; Fultz, Batson, Fortenbach, McCarthy & Varney, 1986), Andreoni (1989) developed a different theory. His theory of 'impure' altruism states that donors receive a warm glow from giving, i.e. charitable giving satisfies one's ego and, thus, is not purely altruistic. For example, charitable contributions could be viewed as 'payments' in exchange

colleges) will be excluded from such corporate philanthropy (Mercer, 1996). Brittingham and Pezullo (1990) also provide evidence of a similar kind of 'self-interest' scenario regarding corporate giving.

[3] Harrison, Mitchell and Peterson (1995) also show that schools with higher development costs generate a substantially higher level of donations. Similarly, Baade and Sundberg (1996b) find that greater development efforts lead to higher alumni giving. From a recipient institution's view point, Harrison (1995) shows that fund-raising and college relations costs are crucial factors in influencing the probability of alumni giving.