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Upfront

Going...Going...Sold for Too Little!: Why nonprofit auctions are inefficient, and how they can raise more money. By Aaron Dalton

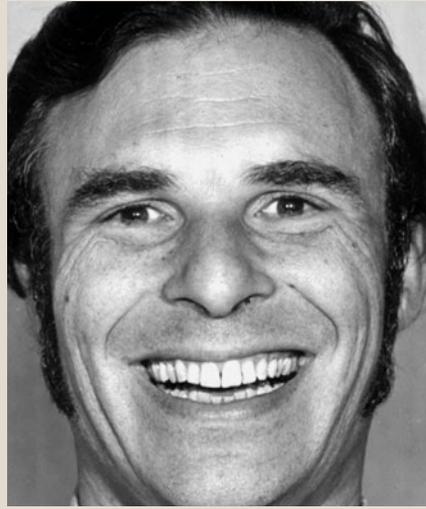
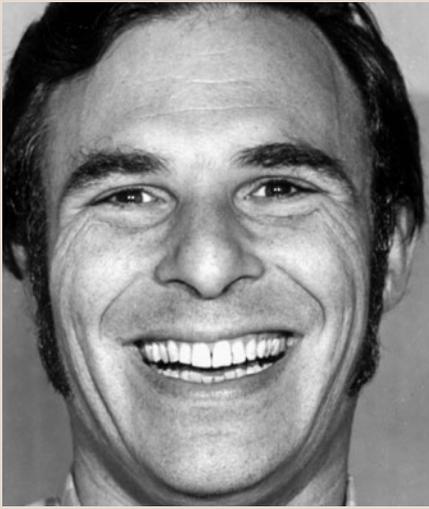
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The differences between real and artificial smiles are subtle, but their consequences are not. Employees forced to fake positive emotions burn out faster.

Its counselors receive 40 hours of interpersonal skills training and regularly meet in support groups. And far from being required to “grin and bear it,” counselors are allowed, for example, to temporarily dismiss clients who are themselves becoming hostile, and to refer particularly trying situations and cases to other counselors. “We model healthy behavior for our clients, and we get complete affirmation on that from our executive director down,” says Leslie Portola [a pseudonym], community programs director for the organization.

“Dealing with life-and-death issues related to domestic violence every day is hard work,” says Portola. Her organization provides two crisis hotlines, legal advocacy, counseling, support groups, and housing to victims of domestic abuse. “We encourage our employees to take care of their own needs and emotions as part of that work.”

Whether they’re in a call center or crisis center, managers are the key to helping employees stay resilient wherever clients demand everything one’s got. —Marguerite Rigoglioso

PHOTOGRAPHS BY PAUL EKMAN, © 2003

Going...Going...Sold for Too Little!

Why nonprofit auctions are inefficient, and how they can raise more money

For the past eight years, Westminster College, a nonprofit college in Salt Lake City with 2,500 students, has held an annual live and silent auction to raise scholarship money. But next year, there won’t be an auction.

“Even though our auctions were successful overall, we had to admit

that the staff and volunteer time involved in getting several hundred auction items donated, tracked, and presented did not measure up against the money [the auctions] raised for student scholarships,” says Kami St. John, director of annual giving at Westminster.

An August 2005 *Journal of Political Economy* article similarly concludes that conventional auctions are “inept fundraising mechanisms,” as wrote its authors, Jacob K. Goeree of the California Institute of Technology, Emiel Maasland of Erasmus University Rotterdam, Sander Onderstal of the University of Amsterdam, and John L. Turner of the University of Georgia.

Goeree and his colleagues explain that nonprofit auctions face a free-rider problem that ultimately reduces how much their participants bid for prizes. Participants in charity auctions, unlike those at for-profit auctions, have two motivations: to win prizes, and to support the cause. Even if they don’t succeed at winning prizes, they can still feel that they are supporting the cause. Moreover, while winning bidders get a prize and the satisfaction of helping the charity raise money, a “losing” bidder can get the satisfaction of helping to raise money without actually spending a dime. As a result, bidding is dampened, and money raised at nonprofit auctions tends to be lower than the amount generated by equivalent for-profit auctions.

Take, for example, a charity wine auction. Participant A bids \$100 for a bottle of wine. If his bid is highest, he will have the satisfaction of helping the charity raise money and of enjoying the wine. But this double pleasure will cost him \$100. Meanwhile, Participant B could raise the bid to \$110. But even if she does not raise the price and win the wine, she can still get the singular satisfaction of watching the charity raise money – albeit at Participant A’s expense. Because Participant B can free ride on Participant A’s bid, she will not bid the amount that she would have

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otherwise bid in a for-profit auction, and the wine will sell at a lower price.

Even if Participant B does decide to bite the bullet and pay \$110, the charity still misses out on the money that Participant A was poised to donate. As Goeree puts it, the higher bid “annihilates” the first bid.

Not content just to point out the shortcomings of traditional auctions, the authors describe what an ideal nonprofit fundraising auction might look like. First, it would have an entry fee to guarantee that all participants make a minimum contribution. Second, it would establish reserve prices below which the prizes will not be sold. Finally, and most radically, Goeree and his co-authors recommend that even those bidders who do not win the prize must still pay the price of their last bid – what is known as an all-pay auction. Such an auction would combine the fundraising benefits of a raffle (where all participants pay, regardless of whether they win) with the efficiency of an auction (where the bidder who values the prize most – and therefore will pay the highest price – wins).

St. John is not so sure that donors in her community would be willing to bid on prizes for which they would have to pay even if they didn’t get to take them home. “The risk of losing would keep the bidding really low, I would think,” she says. Westminster is instead exploring an online auction format, with lower costs, fewer administrative hassles, and more flexibility – a solution where everybody could win.

–Aaron Dalton

Untapped Donors

Volunteers and young people are among several overlooked sources of funds

After 26 years of running the Atlanta Community Food Bank, Bill Bolling has a good handle on how to mine contacts for cash. He has long known, for example, that volunteers are generous not only with their time, but also with their money. He has also taken a long view of fundraising, cultivating high school and college students as future donors. “They’re going to be givers one day, so if we catch them early and develop their awareness of how they can help, we’ll have lifelong givers,” says Bolling, the food bank’s founder and executive director.

Yet in countless training sessions and fundraising campaigns, Bolling has been hard-pressed to prove what he knew from experience. Vindicating his common sense is a research article published in the September 2005 issue of the *American Review of Public Administration*. Authors David M. Van Slyke and Arthur C. Brooks, both of Syracuse University, used a survey of 2,545 greater Atlanta residents, as well as interviews with a dozen nonprofit executives in Atlanta, to explore the habits and motives of charitable Americans. Their findings suggest several untapped sources of donations.

For example, while Bolling recognizes the financial potential of volunteers, many fundraisers have ignored them in the belief that someone who gives time won’t also give money. “We showed that’s patently untrue,” says Van Slyke, whose article urges nonprofits to look first among their ranks of volunteers for new sources of money. The authors’ research likewise confirms Bolling’s observation that it’s worth it to foster young people as donors, because even small donors give more as their incomes increase.

Overall, Van Slyke and Brooks’ findings show that between the wealthy mega-donors whom nonprofits traditionally seek out and the \$25-a-year donors whom they take for granted lies a huge pool of “average donors” whose individual characteristics – and potential generosity – deserve more attention.

Their study also topples a few myths. For example, fundraisers often believe that African Americans give less to charity than any other demographic group, and thus aren’t likely to respond to solicitations. In fact, Van Slyke and Brooks found that though African Americans contribute fewer dollars overall to charitable causes, they actually give a higher percentage of their individual incomes, especially when the causes are faith-based. The authors also found that women tend to give more readily than men and are increasingly making philanthropic decisions independently of husbands and fathers.

Philanthropy isn’t just a matter of academics for the authors, both of whom worked for nonprofit groups before becoming university professors. And Van Slyke is now putting his findings to work, encouraging his three children to participate in such philanthropic activities as a three-mile “crop walk” to raise money for hunger. “When you make [philanthropy] a family activity,” he said, “your kids grow up thinking it isn’t just a once a year type of thing, but fundamental to their contribution to society.”

–Leslie Berger