

# Does Fundraising Professionalization Pay?

## THE IMPACT OF ORGANIZATIONAL FUNDRAISING CAPABILITY ON A CHARITY'S NET REVENUE FROM PRIVATE DONATIONS

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*Although fundraising organizations in the third sector have gone through a progressive professionalization process, it remains unclear whether this development has led to any financial benefits. This article focuses on the question of whether or not it pays off for fundraising organizations to invest in professionalization. The data for this study come from 165 organizations representing 45 percent of the Swiss fundraising market. We first propose the term “organizational fundraising capability” as a new construct for measuring the degree of professionalization and rationalization in fundraising management. We then analyze its relationship to overall net revenue from donations as well as the growth of net revenue from donations. Our analysis indicates that, in addition to organizational size measured by total revenue, revenue share from donations, and expansion strategy, fundraising capability makes an important contribution to explaining both an institution's net revenue from fundraising and the level of increase in net donations. The consequences for the development of professionalization and rationalization in fundraising are discussed.*

**Keywords:** *charity, nonprofit, sector, fundraising, performance, organizational theory*

**TO WHAT DEGREE IS THE FINANCIAL SUCCESS** of a fundraising organization dependent on the level of its organizational capability to raise donations? Are charity organizations that strategically and systematically plan fundraising based on market analysis and scientific methods more successful than those working in a short-term, spontaneous, nonstrategic fashion?

Despite persistent criticism of the progressive economization of the nonprofit sector and the related fears that such organizations are losing their philanthropic and social orientation, in practice, the process of professionalization in fundraising management has continued (Hager,

We thank various people for their contribution to this project. Special thanks are given to the Swiss watchdog organization for donation-collecting human service organizations (Foundation ZEWÖ) and Martina Ziegerer, ZEWÖ managing director, for the provision of the data. Furthermore, we thank the School of Management and Law of the Zurich University of Applied Sciences (ZHAW) for their financial support.

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Journal sponsored by the Jack, Joseph and Morton Mandel School of Applied Social Sciences, Case Western Reserve University.

Rooney, and Pollak 2002; Tempel 1999). Both large and small nonprofits at the international and local levels are expanding in-house capacity and expertise to carry out systematic fundraising.

These issues increasingly receive attention in the research literature, as our literature review shows. However, the empirical research literature does not provide any theory-based constructs that can be used to map out this multifaceted development of building-up fundraising capability and to analyze the relationship to influencing and contributing factors. Therefore, in this article, we attempt to provide such a concept of fundraising capability.

Fundraising capability is a variable designed to measure an organization's capability and effectiveness in increasing its donation revenue via systematic management of personnel and processes. The development of the Fundraising Capability Index starts from research on sociological professionalization (Abbott 1988; Caplow 1966) and from approaches of rationalization in organizational theory (Scott and Davis 2003; Weber 1980).

The first part of this article discusses the development of this concept. This is followed by the empirical testing of the fundraising capability control variables as well as their effects on successful fundraising, defined as donations net revenue and net growth of donations. The empirical analysis is based on data collected from 165 fundraising organizations in Switzerland, which in total represent 45 percent of the Swiss donation market (US\$1.7 billion).

## Determinants of Fundraising Success

A number of determinants of fundraising success have been tested in the fundraising management research. These management determinants are based on widely accepted knowledge regarding which systematic methods and competences achieve success in the private market for donations. This includes, for example, having major donors on the boards of directors, involving experts in a consulting function, or applying specific fundraising techniques (Table 1). In addition, Lu (2015) has found that a bureaucratic orientation determines the amount of government funding. It is important to note, however, that thus far only isolated management factors have been empirically tested.

However, we found no approach that measures the multifaceted phenomenon of fundraising capability from the perspective of organizational development using management variables. In our study, we embedded some of the management variables from Table 1 into a theory-based, systematic, and integrative concept that measures an organization's capability to carry out successful fundraising.

**Table 1.** Management Variables as Determinants of Fundraising Success

<i>Determinants</i>	<i>Studies</i>
Presence of donors on board of directors	Betzler (2015); Hodge and Piccolo (2005)
Involvement of professional fundraising consultants	Marudas and Jacobs (2010)
Human resources (management, employees, volunteers)	Callen (1994); Hager, Rooney and Pollak (2002); Proper et al. (2009); Ritchie and Eastwood (2006); Sieg and Zhang (2012)
Formalization of structures and processes	Chen (2009); Edwards (1994); Lu (2015); Siciliano (1996)
Application of specific fundraising techniques	Sargeant and Kähler (1999)

## The Concept of Organizational Professionalism

A quick overview of the fundraising literature reveals two phenomena that have been observed for some time in fundraising practice: First, organizations are increasingly investing in trained and paid professional fundraisers (Bloland and Tempel 2004; Mesch and Rooney 2008; Tempel 1999). Second, organizational structures in the area of fundraising are increasingly being rationalized, meaning they are making use of formalized processes tailored to their objectives (Hanson 1997; Meyer and Leitner 2011). These two developments raise the question regarding the relationship between professionalized occupations and rationalized organizations. This issue received a lot of attention in the organizational literature, primarily between the 1960s and 1980s (Hall 1968; Montagna 1968; Organ and Greene 1981). It was first taken up in nonprofit research by Hwang and Powell (2009), who analyzed the relationship between professionalized nonprofit managers and rationalized organizations in 501(c)(3) charity organizations in the San Francisco Bay area. They found a strong statistical relationship between the presence of professional nonprofit managers on staff and rationalized organization structures and processes. On the surface, this result seems obvious, but how can this relationship be explained in theory?

Certainly, the case can be made “that powerful professionals have often been resistant to managerial intervention and organizational controls” (Evetts 2011, 39). As Freidson (1994, 137) put it, the “bureaucratic organization is assumed to be antithetical to the freedom of activity traditionally imputed to the professional.” Professionals in certain occupations often experience profound conflict if their value systems do not match those of a rationalized organization. For example, in arts and cultural organizations, the artist may harbor strong resistance to all forms of formalization, because rationalization is perceived to breach the need for artistic freedom and block creativity. Or, in the case of the health care sector, there are physicians who stand up for the rights of the patient to receive individualized patient care, and who thus act against an administrative fee case. As a result of this friction between professionalism and organizational rationalization, “hybrid forms of organizations” develop “that deviate from the bureaucratic model in order to accommodate their professionals’ interests” (Goss 1961; Montagna 1968; Scott 1965; Smigel 1964; all cited in Freidson 1994, 137). Today, more and more professionals are employed in organizations, or at least highly dependent on them, and thus have lost power and autonomy (Majone 1984; Scott and Davis 2003). Currently this development has become even more pronounced because the management profession has a greater impact on organizations (Scott and Davis 2003).

This development goes back to the publication of the article “Business Management: A Profession?” in the *Annals of the American Academy of Political and Social Science* in 1955, at which point business management began to develop into a new profession (Bowen 1955) and managerialism evolved as its ethical foundation (Preston and Post 1974). For a long time, the view of business manager as a profession received only limited acceptance within the sociological community (Freidson 1994). More recently, for example, Khurana (2007) criticized the fragmented structure and content of US business schools concerning theoretical and ethical education, which reflects the diminishing degree of professionalism in the management field. In fact, viewed from the perspective of institutionalism, managerialism has long since been the ethical foundation of business management, has permeated the whole organization, and led to increased bureaucratization and rationalization (Chandler 1977).

Hanlon argues that even the definition of professionalism is affected by business management. He describes a management-influenced form of it, which he calls “commercialized professional-

ism” (Hanlon 1998, 2004). This version of professionalism stresses the need to have managerial and entrepreneurial skills in addition to technical ability (Hanlon 1998). Evetts (2011), in contrast, claims that the discourse of professionalism was adopted to be used as an instrument of managerial control, in order to rationalize, reorganize, contain, and control the work and the practitioners. She refers to this phenomenon as “organizational professionalism” (Evetts 2011, 36). Thus, there seems to be a connection between the management profession and the rationalization of an organization. This can also be observed in the nonprofit sector, where Lubove (1965) attested to the development of professional subcultures in nonprofit organizations (NPOs). The rationalization process in NPOs is driven by the increasing demands of stakeholders (Edwards 1994), particularly the government (Majone 1984), but also the pressure to be businesslike, imposed by the professional nonprofit management community (Cairns et al. 2005).

Based on these considerations, we argue that professionalism and rationalization are not independent from each other, but mutually reinforcing. Professions as collective actors affect institutional environments profoundly. They “exercise enormous influence on cultural-cognitive, normative, and regulative systems, collectively creating and warranting these systems of knowledge and control” (Scott and Davis 2003, 268). For instance, researchers stress cultural-cognitive systems and exercise “cultural authority” (Starr 1982), whereas legal experts and managerial professionals influence regulatory bodies. Conversely, “organizational principles, strategies and methods are deeply affecting most professional occupations and expert groups, transforming their identities, structures and practices” (Evetts 2011, 36). We conclude that a classification of the organizational capability of fundraising management within a nonprofit organization comprises *a combination* of elements from the concept of professionalism as well as from the concept of rationalization. Because of the theoretical link made in the previous section, we hypothesize a significant statistical relationship between organizational rationalization in the area of fundraising and the involvement of professional fundraisers.

## Fundraising Capability

Based on previous theoretical considerations, we defined fundraising capability *as the ability and capacity of an organization to raise money through the management of people and processes* (for a definition of organizational capability see Ulrich and Lake 1990). It comprises the involvement of trained and paid fundraising professionals as well as aspects of a rationalized fundraising organization. Inspired by the work of Hwang and Powell (2009), who developed indexes of professionalization and rationalization in NPOs and found a high correlation between the two factors, we assumed that professional fundraiser involvement and rationalization are interdependent and mutually reinforcing.

Thus, the fundraising capability variable we used in the present study comprises two formative indexes (Table 2): (1) the index of professionalization, used to measure the degree of involvement of professionalized fundraisers, is derived from the sociological concept of professionalism and contains five indicators or subindexes, each selected in reference to existing research; and (2) the index of rationalization is taken from rationalist organizational theory and contains three subindexes. The construction of the formative indexes is based on theoretical considerations in which each item is part of the theoretical concept and not interchangeable (Borsboom, Mellenbergh, and van Heerden 2004). The procedure of formative index construction was carried out as follows: First, several indicators that describe the construct’s “intensity of the involvement of professional fundraisers” (Prof1–5) and the “rationalization of the organization in the area of

**Table 2.** Dimensions of Fundraising Capability and Their Operationalization*Index 1: Influence of Professional Fundraisers*

<i>Criteria</i>	<i>Operationalization</i>	
Prof1	Level of professionalization in fundraising (Chatterjee and Stevenson 2008; Greenwood 1957; Hwang and Powell 2009)	Share of fundraising activity carried out by employees (not volunteers)
Prof2	Relative significance of fundraising in the NPO (Chatterjee and Stevenson 2008; Greenwood 1957)	Percentage of employed fundraisers compared to the number of employees in the organization
Prof3	Formal level of education in fundraising (Chatterjee and Stevenson 2008; Greenwood 1957; Hwang and Powell 2009)	Share of fundraising employees with additional specific training
Prof4	Influence of consultants with fundraising expertise (Majone 1984; Marudas and Jacobs 2010; Suárez 2011)	Relative influence of external fundraising experts on fundraising activities
Prof5	Influence of fundraising experts in the board (Callen, Klein, and Tinkelman, 2003, 2010)	Fundraising experts who are members of the board of directors or foundation council

*Index 2: Rational Organization*

<i>Criteria</i>	<i>Operationalization</i>	
Ratio1	Use of scientifically based fundraising methods and instruments (Scott and Davis 2003)	Intensity of use for selected instruments: analysis of donation market, analysis of donation base, fundraising concept, checking individual activities, testing and evaluation of measures taken, name recognition, concerted effort to support donors
Ratio2	Systematization of fundraising processes (Scott and Davis 2003)	The degree to which specific strategic fundraising orientation is pursued (e.g., growth or focus)
Ratio3	Specific fundraising responsibilities carried by the board of directors (Scott and Davis 2003; Weber 1980)	The degree to which individuals or groups on the board of directors are responsible for fundraising

fundraising” (Ratio1–3) are identified, based on the theoretical considerations (for formative index construction, see, for example, Diamantopoulos and Winklhofer 2001).

The Fundraising Capability Index is defined as the square root of the product of both indexes ( $\sqrt{\text{index 1} \times \text{index 2}}$ ). The rationale for using the square root is that it provides us with the geometrical mean suitable for variables of which the product is interpretable (Kenney and Keeping 1962). We assume a limited substitutability between both indexes: fundraising capability is thus zero if at least one of the indexes is zero. This assumption reflects our theoretical considerations: An involvement of trained, paid professionals implies a certain degree of rationalization, and rationalization is not attainable without some degree of professionalization (Hwang and Powell 2009).

## Data Collection

We collected data for the study using two written surveys involving five hundred fundraising organizations in Switzerland. The surveys, carried out between 2011 and 2014, provided information about fundraising activities as well as revenues and expenditures from the preceding years (ZEWO 2012, 2014). At the time the data were collected, all organizations were accredited by the ZEWO Foundation (Swiss certification agency for charitable institutions,

which has been monitoring and awarding its seal since 1934). The roughly five hundred accredited organizations represented almost 65 percent of all Swiss donations to nonprofits in 2013 (excluding churches, hospitals, research and teaching institutions, museums and other culture organizations). The donations collected by these institutions totaled US\$1.8 billion.

For our analysis, we used the data from 165 organizations that participated in both surveys and returned fully completed questionnaires. The 165 organizations represent 45 percent of the total Swiss fundraising market for charities in 2013 (US\$780 million of US\$1.8 billion). Compared with the overall composition of all 500 ZEWO-accredited members, mid- to large-sized organizations are overrepresented in the sample (compared to smaller organizations with a yearly budget below US\$1 million). The organizations split into four thematic groups: 49 percent charities in social and health services, 12 percent homes and shelters, 6 percent nature and heritage protection, and 33 percent for humanitarian and developmental aid. Fifty-three percent of the organizations' financial support on average (median) comes from donations (Table 3).

Table 4 shows the variation in terms of the criteria of professionalization and rationalization among the participating organizations (subindexes). As can be seen in the table, the distribution of the rationalization variables is primarily symmetrical, while the majority of the variables in the professionalization index display a clearly skewed distribution. However, subindexes of formative indicators must not be equally distributed (Diamantopoulos and Winkelhofer 2001). This is because the theoretical construct of fundraising capability expressed by a formative indicator does not anticipate that isolated items are all significantly linked to the organization's success (Jarvis, Mackenzie, and Podsakoff 2003).

The distribution for the variable Prof1 shows that salaried employees carried out at least one-third of the total working hours spent on fundraising. In more than 80 percent of the organizations, volunteers did less than 10 percent of fundraising work. This result shows that the still-widespread notion of fundraising work carried out entirely without recourse to salaried staff is, at least in the case of certified Swiss charities, an illusion. The data show that 31 percent of all fundraising employees have completed relevant, formal training in this area. The range for these criteria, however, displays considerable variance.

**Table 3.** Descriptive Statistics

<i>Variable</i>	<i>Range</i>	<i>Median</i>	<i>Mean</i>	<i>SD</i>
Total revenue 2013	0.04–135.3m	4.5m	11.6m	20.9m
Donation revenue 2013	0.02–67.1m	1.1m	4.7m	9.6m
Total revenue 2010	0.03–111.9m	3.5m	10.3m	17.6m
Donation revenue share 2010 (= Donation revenue/Total Revenue)	0.01–1.00	0.53	0.51	0.37
Fundraising expenses share 2010 (= Fundraising expenses/Total expenses)	0.000–0.625	0.066	0.084	0.081
Expansion strategy 2010 (Likert-scaled, 3 items, alpha = .73)	0.00–3.00	2.00	1.82	0.75
Fundraising capability 2010	0.00–0.77	0.41	0.40	0.17
Net donation revenue 2013 (= Donations – Fundraising expenses)	0.01–59.3m	0.9m	4.0m	8.4m
Net donation revenue growth 2010–13	–92% – +1018%	+7%	+26%	111%

Notes:  $N = 165$ , financial data in US\$.

**Table 4.** Indicators for Professionalization and Rationalization

Criteria	Operationalization	Mean	Median	Range of Distribution
<i>Index 1</i>	<i>Influence of Professional Fundraisers</i>	.352	.336	.00–.77
Prof 1	Share of fundraising activity carried out by employees (not volunteers)	89%	96%	30–100%
Prof 2	Percentage of employed fundraisers compared to the number of employees in the organization	10%	7%	0–100%
Prof 3	Share of fundraising employees with additional specific training	31%	7%	0–100%
Prof 4	Relative influence of external fundraising experts on fundraising activities		rather not important	41% not important 40% rather not important 12% rather important 7% important
Prof 5	Fundraising experts who are members of the board of directors or foundation council		not at all	66% not at all 17% rather not 8% rather yes 8% yes
<i>Index 2</i>	<i>Rational Organization</i>	.489	.483	.00–.95
Ratio 1	Intensity of use for selected instruments	54%	57%	0–100%
Ratio 2	The degree to which specific strategic fundraising orientation is pursued (e.g., growth or focus)	54%	54%	0–100%
Ratio 3	The degree to which individuals or groups on the board of directors are responsible for fundraising		rather not	43% not at all 18% rather not 16% rather yes 23% yes
<b>Fundraising Capability</b>	<b>= <math>\sqrt{\text{Index 1} \times \text{Index 2}}</math></b>	<b>.401</b>	<b>.409</b>	<b>.00–.77</b>

Note:  $N = 165$ .

## Fundraising Capability and Success in the Fundraising Market

Net revenues from private donations, calculated as the difference between incoming donations and expenditures, and fundraising growth, the change in net revenue over the three-year period, were selected as the dependent success variables for the analysis model.

The rationale for this choice is primarily based on the assumption that, for NPOs in a growing and competitive market, the focus is on securing the highest possible market share, while simultaneously controlling fundraising expenditures to meet the expectations of private donors and public authorities. To have as many resources as possible available to achieve their aims in the future, organizations will take costly short term action as long as the resulting donations exceed the costs involved—although this may reduce fundraising efficiency (measured as average costs per currency unit donated). Or, as Steinberg put it, “Unless an organization has all the resources it needs to fully accomplish its mission, the right amount to

spend is the amount that produces the greatest net proceeds (donations minus costs)” (Steinberg and Morris 2010, 80; see also Steinberg 1991). Thus, a nonprofit organization behaves as a donation net revenue maximizer where revenue increase, while expenditures are kept to a minimum.

We use net donation revenue, calculated as the difference between fundraising costs and incoming donations, as the first dependent variable. The second dependent variable represents the growth of fundraising net revenue after three years (net donation revenue growth) and is calculated as the difference between net donation revenue in 2010 and 2013. We used this variable to check whether, in addition to absolute net revenue, the development of net revenue in donations over time plays a role in explaining fundraising capability.

Based on these considerations, we hypothesize as follows: the more fundraising capabilities an organization has, the more economically successful it will be (*ceteris paribus*) in the following periods.

In order to ensure the *ceteris paribus* requirement, the following control variables were tested:

- *Organizational size.* Cornforth and Simpson (2002) describe the financial potential of an organization as measured by total revenue for one fiscal year. The larger the organization, the greater the amount of donations. Hwang and Powell (2009) found that organizational size was positively related to organizational rationalization. Their beta coefficient drops when the professionalization index is inserted. For the current analysis, we expect the fundraising capability variable to be strong enough to withstand this moderation.
- *Organizational age* (Herman and Renz 1998; Okten and Weisbrod 2000; Tinkelman 2004). In an analysis of US NPOs, Crittenden and Crittenden (2000) found a positive correlation between organizational age and an NPO’s strategic planning process. Hwang and Powell (2009) found a negative relationship between rationalization and organizational age and speculated that newly formed organizations are more likely to introduce new management methods. However, the variable loses its influence when the covariate professionalization is included in the model, which leaves this example open in terms of predicting the possible effects on fundraising capability. We suspect that net donations and net donations growth increase with organizational age as organizations become more experienced and can rely on stronger networks.
- *Percentage of donation revenue in relation to total revenue in an organization.* This describes the extent to which an organization is dependent upon private donations. The higher the percentage here, the higher the expectations will be to generate donation revenue and growth.
- *Expansion strategy* (Brown and Iverson 2004; Stone, Hager, and Griffin 1999) *in the area of fundraising.* We expect that organizations pursuing to expand their fundraising activities get significantly higher net donation revenue and net donation revenue growth.

To find out whether there is a statistically significant relationship among fundraising capability, the aforementioned independent variables, and the dependent variables, we carried out hierarchical linear multiple regression analyses by applying the commonly used least squares method. The hierarchical method is chosen to measure the significance of the new variables introduced.

When carrying out the hierarchical multiple regressions, we checked the variables for normal distribution and, if necessary, logarithmized. We can see that the requirements for multiple

regression analysis are fully met. Multicollinearity is unlikely because the variance inflation factor is consistently below 1.5 (O'Brien 2007). All correlation coefficients between the independent variables are either weak or moderate, ranging from  $r = -.29$  to  $r = +.39$  (Table 5). The scatterplots of the standardized residuals (the errors) by the standardized predicted value of the data show uniformly and randomly distributed values, which means there is no risk of heteroscedasticity (Berry and Feldman 1985).

In Model 1 (Table 6), we chose net donation revenue as the dependent variable and took four steps to evaluate the influence of control variables, fundraising capability, strategic growth, and the interaction between strategic growth and fundraising capability. In Model 2 (Table 7), we proceed analogously but have used the dependent variable net donation revenue growth. Based on the Pearson correlation analysis, a strong relationship between fundraising capability and both performance variables can be expected. However, the control

**Table 5.** Pearson Correlation Matrix

Variable	1	2	3	4	5	6
1 Net donation revenue 2013 (ln)	–					
2 Net donation revenue growth 2010–13 (ln)	.225**	–				
3 Organization size (Total revenue 2010 [ln])	.676**	–.003	–			
4 Organization age 2013 (ln)	.157*	–.093	.394**	–		
5 Revenue share from donations 2010	.357**	–.131	–.294**	–.295**	–	
6 Fundraising capability 2010	.449**	.169*	.236**	–.088	.242**	–
7 Expansion strategy 2010	.413**	.213**	.134	–.086	.245**	.389**

\*\* $p(t) < .01$  (2-tailed); \* $p(t) < .05$  (2-tailed);  $N = 165$

**Table 6.** Regression Analysis on Net Donation Revenue

	Model 1a		Model 1b		Model 1c		Model 1d	
	Dependent: Net Donation Revenue 2013 (ln)							
	Stand. beta	$p(t)$	Stand. beta	$p(t)$	Stand. beta	$p(t)$	Stand. beta	$p(t)$
Total revenue 2010 (ln), z-score	.855	< .001**	.808	< .001**	.787	< .001**	.797	< .001**
Revenue share from donations 2010, z-score	.608	< .001**	.570	< .001**	.541	< .001**	.543	< .001**
Organization age (ln)	–.001	.979	.017	.665	.025	.497	.037	.308
Fundraising capability 2010, z-score			.122	.002**	.077	.045*	.056	.143
Expansion strategy 2010, z-score					.147	< .001**	.125	.001**
Interaction capability $\times$ Expansion strategy, z-score							–.109	.002**
F statistics	207.8/ $p(F) < .001$		167.1/ $p(F) < .001$		149.4/ $p(F) < .001$		133.3/ $p(F) < .001$	
$R^2$ /adjusted $R^2$	.891/.795		.898/.807		.908/.824		.914/.835	

\* $p(t) < .05$ ; \*\* $p(t) < .01$ ,  $N = 165$ .

**Table 7.** Regression Analysis on Net Donation Revenue Growth 2010–13

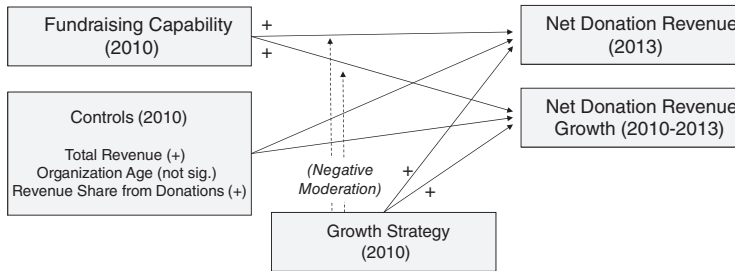
	Model 2a		Model 2b		Model 2c		Model 2d	
	<i>Dependent: Net Donation Revenue Growth 2010–13 (ln)</i>							
	beta	p(t)	beta	p(t)	beta	p(t)	beta	p(t)
Total revenue 2010 (ln), z-score	.003	.970	-.089	.322	-.122	.173	-.107	.230
Revenue share from donations 2010, z-score	-.173	.038*	-.248	.004**	-.292	.001**	-.289	.001**
Organization age (ln), z-score	-.145	-.094	-.109	.200	-.096	.250	-.078	.249
Fundraising capability 2010, z-score			.240	.005**	.172	.046*	.139	.107
Expansion strategy 2010, z-score					.225	.007**	.195	.019*
Interaction capability x Expansion strategy, z-score							-.169	.031*
F statistics	2.011/p(F) .115		3.648/p(F) .007		4.531/p(F) .001		4.649/p(F) <.001	
R <sup>2</sup> /adjusted R <sup>2</sup>	.190/.036		.289/.084		.353/.125		.387/.150	

\* $p(t) < .05$ ; \*\* $p(t) < .01$ ,  $N = 16$ .

variables are also significantly correlated with both dependent variables. The following regression analysis provides more information regarding the influence of the independent variables.

Model 1 (Figure 1; Table 6) displays the influence of the aforementioned variables on net donation revenue. Model 1a shows that the control variables organizational size, measured here as total revenue, and revenue share from donations in 2010 have the strongest impact on net donation revenue. Taken together, these two factors explain 89 percent of the variation. Thus, we are able to confirm the following: First, the larger the organization is, the higher the net donation revenue. Second, the higher the percentage of donation revenue in terms of total revenue, or the more pressure on an organization to attain private donations, the higher the net donation revenue. There is no significant relationship in terms of the variable organizational age. Our assumption that net donation revenue increases with organizational age (because of greater experience and stronger networks of older organizations) is not confirmed. Model 1b shows that the newly introduced fundraising capability provides a significant contribution to our understanding of donation revenue. The explained variance increases by 7 percentage points. To check the influence of nonprofits' pursuit of an expansion strategy we included this variable in our model (Model 1c). The results show that expansion strategy is a strong explanatory factor and that fundraising capability is only significant at  $p = 0.05$ . Because of its relevance, we test whether expansion strategy influences the relationship between net donation revenue and fundraising capability as a moderator variable. Therefore, we add an interaction effect between expansion strategy and fundraising capability (Model 1d). Interestingly, the interaction factor is significant with a negative sign, which means that at a high level of expansion strategy, the relationship between fundraising capability and net donation revenue is weaker than at lower levels.

Considering the change in net donation revenue over a three-year period (Figure 1; Table 7, Model 2), we can see that the explanatory power of the variables (39 percent and 15 percent, respectively) is noticeably lower. In contrast to Model 1, organizational size does not play a role here—and does not correlate significantly with net donation growth. Organizations with

**Figure 1.** Variables and Their Relations

Note. + indicates a significantly positive relationship.

a higher percentage of donation revenue in terms of total revenue experienced lower growth in net donation revenue. One possible explanation is that the Swiss fundraising market is slowly reaching its growth limit and NPOs that have already attained high levels of donations have more difficulties in expanding growth (Model 2a). When we add fundraising capability to this model, the explained variance jumps from 19 (Model 2a) to 29 percentage points (Model 2b). When the variable expansion strategy is added to the model, the significant positive influence of fundraising capability (Model 2c) is maintained, but only at  $p = 0.05$ . A significant interaction effect for the two variables fundraising capability and expansion strategy can be observed in Model 2d (Figure 1; Model 2d). By including this in the regression model, the explained variance increases from 35 (Model 2c) to 39 percentage points (Model 2d). Here as well, the interaction effect signifies that at a high level of willingness to expand fundraising activities, the relationship between fundraising capability and net donation revenue is diminished.

In both models, fundraising capability and expansion strategy are related to net donations revenue and its growth. Fundraising capability pays off for those charities that want to stabilize their position and are not under growth pressure (Models 1b and 2b). Our interpretation is that organizations pursuing a dynamic expansion strategy are more successful if they are not affected by the stabilizing forces of fundraising capability (Models 1c and 2c). In terms of the interaction between fundraising capability and expansion strategy, both models show that nonprofit organizations that strongly pursue expansion strategy counteract the positive impact of fundraising capability on net donation revenue and its growth. Our results suggest that strong pressure to expand fundraising activities hinders professional, planned action, and tie up both human and financial resources. Accordingly, a strong expansion focus impedes the establishment of a professional and effective fundraising capability.

Overall, fundraising capability has a significant, positive effect both on the level of donations and on donation growth. This indicates that particularly nonprofit organizations that purposefully build up fundraising capability, consisting of various aspects of professionalization and rationalization, are more successful with fundraising net revenue and its growth (Figure 1).

## Conclusion

Our study showed the relevance of fundraising capability, which provides a new qualitative management variable for an institutional-economic model. It does indeed pay off to invest in the development of fundraising capability. From a resource perspective (Barney 1991),

fundraising capability represents a competitive advantage. Despite investment expenditures such as training or personnel costs, the increased involvement of fundraising professionals and rationalizing fundraising activities resulted in higher net donation revenue and net revenue growth three years later. In practice, fundraising capability could be an interesting approach for measuring an organization's own management skills.

The findings of this study raise a number of new issues for NPO research:

1. Concerning the concept of fundraising capability, more information regarding the driving forces in building up fundraising capabilities would be useful: Is fundraising capability initiated within the organization or is it triggered by developments in the fundraising scene leading to institutional isomorphism (DiMaggio and Powell 1983)? In line with the latter view, Faulk (2011) found that grant-making foundations play an important role in the professionalization of a nonprofit organization. Chen (2009) found that the US watchdog organization Better Business Bureau has a positive impact on donation behavior. The question is to what extent watchdog organizations have an impact on the development of fundraising capabilities. A comparison between accredited and non-accredited organizations might provide interesting insights.
2. Fundraising capability has been shown to have a positive effect under growth conditions. However, the economic barriers to fundraising capability when donation growth is lacking or there is market concentration remains unclear. We still do not know how much fundraising capability must be developed to reach the upper echelon of the donor market.
3. Furthermore, the Swiss donation market is, due to the extremely high correlation between expenditures and donation revenue, an investment-driven market. The more money invested, the higher the donation revenues. Under these conditions, the professionalization effect as a qualitative management variable can only explain a small part of the donation net revenues. It would be interesting to carry this study out in other countries and donation markets to see whether this diagnosis is replicable.
4. The concept of fundraising capability focuses on the classic understanding of professionalization. The influence of newer, more creative or spontaneous fundraising approaches has not been researched in this context.
5. In addition to the explanatory variables identified in this study, its relation to other variables could also be explored, for example, to volunteer forces (see also Hager et al. 2002), to cooperative behavior in the fundraising arena, or to diverse donor channels such as legacies, mass donations, or gross donations.

There are legitimate criticisms of a purely economic view of nonprofit organizations and the rational economic behavior of the actors involved (Eikenberry 2009; Eikenberry and Kløver 2004). For example, a nonprofit organization's philanthropic mission itself may shift toward profit orientation (Steinberg and Weisbrod 2005; Valentinov 2011), and this may reduce the intrinsic motivation of the stakeholders (Deckop and Cirka 2000). However, fundraising management sections or departments of NPOs in particular are taking on the role of driving rational behavior; their processes are standardized; and fundraising success is benchmarked by watchdog organizations and states.

With this study, we have demonstrated the impact of professionalized and rationalized work in fundraising. Nonprofit organizations are now facing the challenge of how best to carefully integrate the efficiency and effectivity-oriented behavior of professional fundraisers with high capabilities into their democratic, social, and philanthropic environments.

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