IMPROVING NONPROFIT DONOR RETENTION THROUGH DIALOGUE

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Abstract

This thesis explores the issue of donor retention in the nonprofit sector as a social exchange through the lenses of Social Penetration Theory and Relationship Maintenance. It gives specific attention to the benefits of cultivating donor loyalty through dialogue. It also reviews research on the cost to benefit ratio of donor retention versus new donor acquisition. Included is a case study of the donor retention rates of a single nonprofit organization, and comparative analysis of donor retention across giving segments. In conclusion, it surmises that nonprofit organizations can significantly impact their sustainability by investing more intentionally in deepening existing donor relationships. By developing new models of communication that allow for greater levels of reciprocity in the donor communication process, nonprofits can improve donor retention rates and their financial viability.

Key words: dialogue, reciprocal communication, fundraising, donor, retention, acquisition, attrition, donor satisfaction, loyalty, nonprofit management, sustainability, Social Penetration Theory, Relationship Maintenance
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Chapter 1: Introduction

Donor retention is imperative to the financial viability and sustainability of a charitable organization. While nonprofits continue to improve their donor acquisition campaigns in order to attract new givers, the number of recurring donors has remained tragically low. This thesis will explore donor cultivation through the lenses of Social Penetration Theory and Relationship Maintenance. It will also consider those factors which contribute to donor retention and attrition, and reflect on whether nonprofit organizations can improve donor loyalty and retention rates through dialogue.

Importance of the Study

Nonprofit organizations depend on generous donor partnerships to fund the work of their charitable causes, yet developing strong donor relationships of loyalty and trust takes time and intentional effort. Since these important relationships are critical to the organization’s success, much time, effort, and expense is allotted to attracting new donors to the mission of the organization. Unfortunately, according to the Association of Fundraising Professionals (2015), half of those new donors will have moved on to another project or organization within the year. What started as an exciting partnership to do good, fizzled quickly due to lack of donor engagement. This study will seek to determine correlations between dialogue and donor retention, in an effort to develop stronger donor bonds with nonprofits.

Altman and Taylor’s (2016) Social Penetration Theory, suggests that people develop relationships of connection and trust by participating in reciprocal communication that invites ever deepening levels of confidence. If organizations, then provide mostly one-sided communication to donors, dialogue may be an important step missing in the cultivation of loyalty and relationship.
“Attracting new donors often gets all the attention in the nonprofit world, but an increasing number of organizations have begun taking aggressive steps to do all they can to make sure donors keep giving after the first time” (Blum, 2014, p.1). It is imperative, according to Blansett (2015, p. 42), for organizations to not only attract donors willing to invest resources, but for those same organizations to also invest the time and effort to know their donors “to listen to them, to understand why they signed on in the first place, to monitor their participation, and to employ their time and talent in ways that advance the organization’s mission and give them personal gratification”. Fischer (2015, p. 1) emphasizes that “recruiting new donors costs two to three times more than stewarding an existing donor”. According to an interview with Martignetti, Carver, and Schultz (2015), “the average nonprofit has a 60 to 70 percent chance of obtaining additional contributions from existing donors; a 20 to 40 percent probability of securing a gift from a recently lapsed donor; but less than a 2 percent chance of receiving a gift from a prospect” (p. 1). According to Hall’s (2010, p.1) interview with Bernard Ross and Clare Segal, co-founders of the Management Centre, a London consulting firm,

*Instead of focusing so much on donors’ financial means and other research, what fund raisers really need to do is learn how people absorb information, how they prefer to communicate, and their decision making style.*

By improving loyalty and increasing donor retention rates, charitable organizations can significantly impact their return on investment and their bottom-line.

**Statement of the Problem**

While research has been done in recent years to track donor retention rates, there is still a need to understand why and how donors make the decision to continue financially contributing to an organization or not. The Association of Fundraising Professionals (AFP) has been tracking donor retention for the past decade, and through the Fundraising Effectiveness Project (EFP) they
have annually reviewed the donor retention percentages of more than 8,000 nonprofits of varying sizes. This statistical data has brought the epidemic of donor attrition into sharp relief on the nonprofit landscape. Where nonprofits were once optimistic about the numbers of new donors contributing to their cause, they were now able to see the whole story. The story of the statistical data identified more than half of those same new donors leaving the organization in less than twelve months.

According to Koenig (2015) there is evidence to suggest that even while the dollar amount donated by individual donors is remaining consistent, donors are making contributions to fewer nonprofits than in previous years. This “means nonprofits that rely on acquiring large numbers of donors are going to find it increasingly difficult to make money from direct marketing or major events” (Koenig, p. 1) Charitable organizations, “according to Adrian Sargeant and other fundraising pundits, typically lose 50 to 60 percent of their new donors after one year, with attrition of 30 percent year after year” (Fischer, 2015). In fact, the Association of Fundraising Professionals’ (AFP) recent 2015 Fundraising Effectiveness Survey Report (AFP, 2015) demonstrates findings that 501c3 organizations are not gaining new donors fast enough to keep pace with former contributors who have chosen to reduce the amount of their giving, or to not give again. Currently, nonprofits are losing $103 for every $100 gained through new donor acquisition (AFP, 2015). However, it is the increase in giving by retained donors that is keeping nonprofits in business. While these numbers reflect lost revenue due to poor donor retention rates, they also represent an opportunity for charitable organizations to focus their efforts on strengthening relationships with their current donor-base to increase levels of giving and stem the tide of lapsed contributions.
Definitions of Terms Used

This thesis will be focusing specifically on the giving patterns of new donors to a nonprofit organization. New doors are first-time financial contributors to a charitable organization. The time and resources that an organization expends to develop a relationship with these new donors is called the donor cultivation process. Ideally this process will help draw the new donor closer to the organization, deepen their relationship with leaders, and help them to feel that they have a stake in helping to complete its mission. The process is designed to communicate value to the donor; the value of the mission to the community and the value of the donor in helping the organization fulfill that mission. When an organization does this well, the donor will stay connected to the organization and make subsequent contributions. This is called donor retention; the donor has remained active with the organization and has made a financial commitment in the year following their initial gift. Donor retention rates are calculated by the number of retained donors, divided by the total number of new donors from the previous year.

Donor cultivation and engagement is a social exchange that seeks to elicit a financial investment, but first requires an investment of time to build trust and relationships. Social exchange is defined as a “relationship behavior and status regulated by both parties’ evaluations of perceived rewards and costs of interaction with each other” (Griffin, 2011, p. 117). This means that both parties in the relationship must perceive a potential benefit to developing and continuing the relationship. Each will try to weigh what investing time and social capital into the relationship will cost them prior to engaging in a social exchange. According to the minimax principle of human behavior, individuals will use these predicted outcomes to determine how to minimize their cost in the relationship while maximizing its benefit (Griffin, 2011, p. 117). This is true for donor engagement as well as individual relationships. The donor is assessing the benefit of their relationship with the organization in light of what it will cost them.
Organization of Remaining Chapters

This thesis will include a literature review of other research related to donor cultivation and retention, it will also provide a case study analysis of a single nonprofit organization. Philosophical assumptions and the theoretical basis for the study are provided in Chapter 2 with the review of literature. In Chapter 3 an outline is provided of methods used to collect and analyze information for the study. The Fundraising Effectiveness Report (AFP, 2015) was used as the framework for evaluating the statistical data. Chapter 4 compiles the study findings and provides comparison graphs for donor retention across giving segments. A summary of the study is included in Chapter 5, along with recommendations for further study and conclusions derived from the study findings in this thesis. The AFP Code of Ethics and Donor Bill of Rights are included in the Appendix with permission from the Association of Fundraising Professionals.
Chapter 2: Review of the Literature

**Philosophical Assumptions**

Nonprofit organizations exist to do good; to enrich the individuals and communities they serve by providing health care, nutrition, education, counseling, or some other advantage that will benefit the recipient. To ensure financial solvency and sustainability it is important for these organizations to engage donors who understand the mission of the organization and are willing to give generously through the organization to make a difference in the lives of others. The organization does not seek to raise funds for its own growth and benefit, but rather to provide for the current and future needs of others.

Nonprofit organizations have legal as well as ethical responsibilities in how they solicit, receive, and record funds. How well an organization executes these activities will either build or erode public trust. This thesis will focus more on the ethical and practical considerations of donor development rather than the legal requirements. The framework for ethical conduct is the Association of Fundraising Professionals (AFP) Code of Ethics and Donor Bill of Rights (see appendix A). In accordance with these standards all nonprofit organizations have a responsibility of transparency with their donors, communicating clearly the mission of the organization and how funds are being used.

From a philosophical standpoint, it is imperative that organizations communicate and respond to donors as individuals with intrinsic value, rather than as piggy banks to be accessed only for financial gain. This is consistent with Buber’s philosophy of dialogical ethics, maintaining that individuals should be treated as beginning “a valued end rather than a means to our own end” (Griffin, 2011, p. 79). Those that come together only for the purpose of creating a positive image, according to Buber, are engaged in an I-It relationship, in which each party seeks
their own best interests (Griffin, 2011). “Created by monologue, an I-It relationship lacks mutuality” (Griffin, 2011, p. 79). By contrast, an I-Thou relationship per Burber seeks understanding through dialogue. He contends that “dialogue is a synonym for ethical communication” as it “requires self-disclosure to, confirmation of, and vulnerability with the other person” (Griffin, 2011, p. 79). This discourse of self-disclosure is critical in developing enduring relationships that bind donors and nonprofits together.

Donors fund charitable causes and organizations that they know, like, trust and respect. A positive public image therefore, is critical to fundraising success, yet it is only a small step toward donor engagement. More important is building strong relationships between the organization, its leaders, and those providing sustainable funding through generous, financial contributions. Strong relationships are reliant upon communication that does more than just communicate facts and figures. Communication that builds relational value is dialectic in nature and allows for the mutual exchange of values and priorities. It invites the donor into the process and allows them to be part of a compelling mission and vision that is inspirational, reciprocal, and life changing.

**Cultivating Dialogue**

Unfortunately, for most nonprofit organizations, relational disclosure is limited to communication vehicles that allow only for one-sided communication. The organization shares its mission, stories about who is being helped, and their need for additional assistance, but there is little opportunity for reciprocity. Altman and Taylor define the Law of Reciprocity as an interchange of comparative sharing, where each person responds to the other with a similar level of intimacy. Yet in the mainstream of nonprofits seeking funding, there is little opportunity for donors giving below a certain dollar figure to share their own mission, values, and goals. Donors are instead, inundated with a monologue of information that, due to its lack of reciprocity, is destined to build a temporary and unfulfilling relationship, “Though they often discuss the value
of relationship cultivation, many fundraisers struggle with deciding the best methods for developing relationships with donors” (Waters, 2009, p. 328). Fundraising, according to Blansett (2015) is about far more than money, it’s about “passion, vision, leadership, engagement, impact, legacy, and the desire for change among them” (p.40). Water’s (2009) research identified six areas of influence within donor relationships: access, positivity, openness, assurances, networking, and shared tasks. According to Waters, (2009) “access has been identified by fundraising consultants as being an important strategy to connect with donors” (p. 331). Access allows nonprofit leaders and donors an open channel of communication to develop dialogue and build trust (Waters, 2009).

Understanding why a donor gives or, more importantly, has stopped giving is a critical organizational health check for a nonprofit. While not every donor relationship can be salvaged, investigating the cause for lapses can provide the necessary insight for strategies that will help donors choose to stay (Fischer, 2015). By tracking giving activity, organizations can determine levels of donor engagement and conduct discovery interviews with lapsed donors. This will help to identify problem areas within the organization and provide the opportunity to build contingency plans (Fischer, 2015). “Examination of anonymous records of donations by 1.8 million people shows that many organizations that rely on public donations to achieve their missions experience very high turnover rates in their donor rolls” (Barber & Levis, 2013, p. 1). Barber and Levis found through their research, however, that donors did not become less generous over time, but rather shifted their giving to other organizations with whom they had a deeper connection or a greater level of trust.

**Understanding Donor Cultivation**

Models for fundraising must be viewed not only within the framework of relationship-building, but also in the context of decision-making (Knowles and Gomes, 2009). According to
Sundel, Zelman, Weaver, and Pasternak (1978), one of the primary differences in the consumer relationships of the for-profit sector and the constituent relationships in the nonprofit arena, is the number of constituencies. While Sundel et al’s research was conducted several decades ago, the dual constituent focus for nonprofits remains a consistent challenge. “Nonprofits typically serve two primary customer groups–those that supply the funding for activities and those that consume it” (Sargeant, Foreman, and Liao, 2002, p. 46). In a consumer relationship the end user of a good or service is the same person responsible for financing the purchase, while in a nonprofit, the group who benefits from the nonprofit’s services is not the same group that is funding the organization (Sundel et al, 1978). This difference can be a significant one, when leaders try to superimpose for-profit business strategies onto nonprofit organizations without recognizing the two distinct constituency groups. According to Knowles and Gomes (2009), the use of for-profit models in individual donor solicitations “may ultimately undermine the mission of a nonprofit as well as foster distrust and disrupt commitment by potential Major Gift donors” (p.386).

(Barman, 2007, p. 1419) Historically, beginning in the late 19th century, the dominant belief had been that the voluntary sector should be driven by the needs of recipients, as measured and managed by professionals, and as financially supported by donors. Donors were generally considered, of all involved actors, the least qualified to make decisions about how charitable contributions should be distributed.

Barman (2007, p. 1420) asserts, however, that the days of “checkbook philanthropy” are ending as business savvy donors are seeking to be more involved in how nonprofit resources are utilized. “Many groups are now looking at donor loyalty through a customer service lens, aiming to give supporters a personal touch, more information about how their gift dollars are spent, and more opportunities to get involved” (Blum, 2014).
Knowles and Gomes (2009) stress the importance of being donor-centric when helping to increase the level of awareness and understanding among prospective donors. According to Barman (2007), more and more donors are moving away from unrestricted giving to organizations, and are being more specific about the designation of philanthropic funds. Nonprofits should focus not only on their own mission, services, and needs, but should also focus on serving the needs, interests, and goals of the donor. This focus on reciprocity in the relationship between the donor and the organization can serve as the vehicle to penetrate deeper levels of connection (Griffin, 2011).

**Theoretical Basis**

One method for understanding the development of close interpersonal relationships is Altman and Taylor’s Social Penetration Theory (2016). In this four-phased model, acquaintance relationships develop into intimate relationships by engaging in consistent and ever deepening levels of self-disclosure. There is a mutual exchange that takes place in the relationship where one invites confidences through self-disclosure and the other reciprocates at a similar level of relational depth.

**Phase I.** The donor cultivation model for developing philanthropic relationships follows a path similar to that used in Altman and Taylor’s (2016) “framework of social penetration theory” (in Griffin, 2011, p. 115). The first level of penetration, according to Altman and Taylor (2016), is a level of engagement that includes small talk and general information which is easily disclosed between relative strangers. In this introductory phase of new donor identification, the nonprofit is providing general information about its mission and who it serves, while hoping to gain interest and contact information from the potential donor in exchange. The awareness portion of this
exchange will generally occur through social media, broadcast, direct mail campaigns, or events. The nonprofit’s responsibility is to communicate its mission in a compelling manner that invites a response of self-disclosure or a small initial gift.

**Phase II.** The willingness of the potential donor to provide general information to the nonprofit is the first indication of reciprocity and leads to the second phase of Altman and Taylor’s (2016) social penetration theory. During this phase there is a discovery process which helps each party determine the value of the relationship. This is accomplished through a series of exchanges between the nonprofit and potential donor which may also include: social media, email, direct mail, handwritten notes, or phone conversations. This process may continue up to several months, as long as relational interest is demonstrated by both parties and there is congruency of reciprocity. Once an initial gift to the organization has been made, new donors are entered into a process designed to deepen the relational and financial commitment of the donor. This new donor process may include: welcome materials, a thank you note, an autographed book, t-shirt, or other items that help the donor to identify with the organization and its mission. It should also include some form of interaction between the donor and the nonprofit through a personal invitation to an event, tour, small group gathering, or volunteer opportunity.

**Phase III.** Unfortunately, according to Altman and Taylor (2016) “penetration is rapid at the start but slows down quickly as the tightly wrapped inner layers are reached” (in Griffin, 2011, p. 116). This loss of momentum requires additional effort for the relationship to continue to deepen. However, “most relationships stall before a stable intimate exchange is established. For this reason, these relationships fade or die easily after a separation or a slight strain” (Griffin, 2011, p. 116). It is in this third phase where most donor relationships are lost. Due to the energy and excitement inherent in new relationships, many nonprofits prefer the expediency of new donor acquisition, to the slow and time consuming work of building long-term philanthropic
partnerships. However, when nonprofits invest the time to deepen donor rapport, the relationship becomes not only more stable and meaningful, but can also lead to a far deeper commitment of resources. As nonprofits invest individual time with donors between events, the donor experiences deepening levels of trust and a greater level of identification with the organization and its mission. This positive identification is critical to the cultivation of second, third, and major gift donations.

**Phase IV.** Without the investment of time and effort, donor relationships will move into the fourth phase of Altman and Taylor’s (2016) social penetration theory. In this phase, “depenetration is a gradual process of layer-by-layer withdrawal” (in Griffin, 2011, p. 116). For donors, this withdrawal from relationship with a nonprofit may begin with a lack of availability for phone calls, meetings, or events, but will generally culminate in the cancelation of financial support. “Relationships are likely to terminate not in an explosive flash of anger but in a gradual cooling off of enjoyment and care” (in Griffin, 2011, p. 116). This withdrawal of relationship and financial support can be mitigated by intentionally creating additional opportunities for dialogue, reciprocity, and engagement.

**Literature Review**

**Focusing on Existing Relationships**

According to Barber and Levis (2013), carefully watching the giving trends of donors can help a nonprofit avoid operational decisions that can negatively impact giving. “In contrast to potential donors, lapsed donors are known to the organization in terms of background, behavior, and contact details, offering a big advantage in facilitating direct marketing communications” (Feng, 2014, p. 128). Since these donors, according to Feng (2014), have already expressed interest in the organization through their previous financial support, the movement from being a lapsed donor to an active donor should demand less effort and be more cost effective than
acquiring new donors. Feng (2014) suggests that while lapsed consumers in the for profit sector are more easily reestablished when the lapse in activity is brief, lapsed nonprofit donors may benefit from a longer cooling off period due to the influence of regret on decisions to withhold contributions. Feng (2014) emphasizes that timing is a critical factor in regaining lapsed donor support. While not all donors who begin with smaller gifts will progress to become major givers or even regular donors, “those whose support ends after a single year will have no chance to gain the greater connection that supports a larger commitment” (Barber and Levis, 2013, p. 5). A donor’s worth to an organization cannot be determined in a single gift or even within the first few years.

The goal of an organization then should be to cultivate long-term relationships with their constituents so that a donor’s gifts can grow apace with their understanding of the organization, passion for the work, and trust of the leadership. “Commitment and trust are two relationship characteristics that are central to the understanding of relationship marketing, and they are the foundation for the nonprofit organization-donor relationship” (Waters, 2009, p. 329). “Good fundraising and good investor relations will make your organization more resilient, more secure, better able to lead, and more effective at creating the kind of impact you want to have in your community” (Blansett, 2015, p. 39). According to Barber and Levis (2013), cultivating the connection between an organization and its current donors is not only more cost effective than searching for new donors, it also provides the opportunity for developing a more informed donor base that is capable of articulating the mission of the organization, thus giving longevity to a charity’s standing within the community.

**Donor Return on Investment**

Suave-Rodd (2007) has done considerable research related to the profitability of individual donors. Most nonprofits tend to consider donors either in segments or in general terms
of how the entire donor base impacts giving revenue for the year. Suave-Rodd (2007) contends however, that charitable organizations are missing the mark by not considering the impact of individual donors to the bottom-line. In one case study of 5 different nonprofit organizations, he found that 75 percent of these organizations’ annual budgets were provided by only 10 percent of the donors, while more than 50 percent of annual donors fell into the “unprofitable” ROI category, meaning that it cost more to send them information each year than was covered by their contributions (Suave-Rodd, 2007). While many nonprofits would continue to solicit this group of “unprofitable donors” through direct giving campaigns with the hope of upgrading them to another level of giving, Suave-Rodd (2007) argues that there is evidence to suggest that most will not rise above the level of their initial gift to the organization without intentional cultivation and a personal experience with the organization. Feng (2014) also warns that the vehicle of reacquisition and the frequency of contact will influence the donor’s decision to reengage with the organization. Feng (2014) points out that some donors will view frequent and costly marketing materials as a poor return on their investment to the organization.

In fact, one of the significant findings in Hall’s (2013) research was that fifty percent of donors indicated that they would be more likely than they were five years ago to stop giving to an organization that asked them to give too often. This demonstrates again, that organizations cannot continue relying upon one-sided communication to deepen relationships, but should instead look for ways to increase dialogue and reciprocity.

**Activities that Impact Donor Engagement**

In an interview with Penelope Burke, Hall (2013) mentioned that high rates of relentless direct mail solicitations to donors created negative experiences that not only caused donors to stop giving, but also contributed to high turnover rates in fundraising personnel. “Over-solicitation is now the most common reason donors say they stop giving in surveys that Ms. Burke's
company has conducted with more than 60,000 donors since 1998” (Hall, 2013, p. 2). “Most charities,” according to Burke, “bombard donors with relentless pleas for contributions, creating an environment of over-solicitation and mistrust among the very people they depend on for revenue” (Hall, 2013).

In an interview, John List (in Anft, Apr. 2015), gives examples of unsuccessful fundraising tactics which are still utilized by many nonprofits, including: plying donors with endless facts and statistics, promising matching gift opportunities, continuing solicitations of lapsed donors long after they’ve stopped giving, and incentivizing gifts through premium offers (a promise of some token in return for a donation). Burke (in Hall, 2013) emphasizes that nonprofit resources would be better utilized if leaders focused more time and effort on thanking donors and creating intentional communication plans around how funds are being spent.

Hall’s (2013) research suggests that donors are motivated more by events that reflect their values and offer opportunities for participation, than by other solicitation tactics”. Free gatherings that recognize donors' contributions and educate people about a charity's work spur donors to give generously, the survey found, far more than conventional approaches like publicizing a donor's name.” (Hall, 2013, p. 2). List (in Anft, 2015) also discovered during his research, that many nonprofits lack a basic understanding of how donors make decisions about giving. “Research shows that people base their giving on how they will feel after they donate” (List in Anft, 2015, p. 2). List refers to the feeling donors get from giving as, “the warm glow theory”, but emphasizes that these positive feelings are directly proportional to whether the donor feels that their contributions is significant to completing the mission of the organization (in Anft, 2015, p. 4). According to Anft’s (2015) review of scientific research, discussing fond memories with donors increases the presence of oxytocin, which has been linked to increased feelings of well-being and generosity. “Donors who are asked about causes that have been
important to them throughout their lives will be more likely to support those causes in a bequest, even if they haven't given to those causes before” (Anft, 2015, p. 5). These findings offer further evidence to support the importance of dialogue in the donor cultivation process.

Sargeant, Hudson, and Wilson (2012) contend however, that the intangibility of nonprofit services is a contributing factor in donor dissatisfaction. According to relational maintenance research conducted by Stafford and Canary (Griffin, 2011, p.152), maintenance behaviors included activities that contributed to developing and maintaining: “liking, trust, commitment, and control mutuality,” which means that there is an established understanding that relationship goals are decided by both parties. Sargeant et al (2012) suggest that by developing outlets for donors to express dissatisfaction, organizations may be substantially increasing levels of trust and improving brand loyalty. However, having no outlet for donor complaints amplifies dissatisfaction and increases the number of lapsed donor incidents (Sargeant et al, 2012). “Trust, as a future-oriented variable corresponding to positive expectations, is based on satisfaction, which itself relates to experiences in the past” (Naskrent and Siebelt, 2011, p. 764). This means that trust continues to grow between the donor and nonprofit each time the donor’s expectations are met or exceeded.

Griffin (2011) warns that “forming a relational bond is often easier than sustaining it” (p. 151). This statement about relationships would seem to be consistent with the research findings on donor retention and attrition, which demonstrate that while donors are quick to engage in giving an initial gift to an organization out of passion or concern, they are less likely to give a second gift or develop consistency within the relationship based on an initial positive experience without continued engagement and deeper levels of connection.

Sargeant and Woodliffe (2007) differentiate between two types of commitments to nonprofit organizations: passive and active. The passive commitment is found where donors feel
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Disengaged from the nonprofit, yet still give out of a perceived obligation to “do the right thing” or because they simply haven’t bothered to withdraw their regular support. Active donors, by contrast, are engaged in the mission of the organization and passionate about the good they are accomplishing together. An important distinction is that passive donors give to an organization, while active donors give through an organization to achieve specific goals for beneficiaries.

According to Sargeant and Woodliffe (2008), donors are more likely to make significant contributions when they are actively involved in the organization and committed to a shared value or mission. An “active commitment” as defined by Sargeant and Woodliffe (2008) is “a genuine passion for the future of the organization and the work it is trying to achieve” (p. 6).

Stakeholders also want to be identified as contributing to noble causes that reflect their values. Identification then is another factor that drives constituent loyalty. Brand loyalty, similar to that used in marketing, can be one way that charities attract and keep donors who feel that their personal values are represented and reflected in the mission of the organization. “Donors are drawn to (and perhaps remain loyal to) brands that are perceived as having a personality encompassing values congruent to their own, be they actual or aspired” (Sargeant, 2008, p. 6). This is one of the many reasons that it is important for a charity to know its donors, what they care about, what motivates them, and how they like to give. “Aiding donors to foster a favorable image of themselves, not merely because they are donors, but because of the values they aspire to or already possess, would be an effective strategy to adopt” (Sargeant, 2008, p. 7). According to Naskrent and Sieblet (2011), donors perceive their giving to a nonprofit organization as something they should do, need to do, or want to do. Research shows that when donors are giving out of their own desire to do good, they are more likely to be generous and consistent in their giving.
Behaviors that Stafford and Canary (in Griffin, 2011) found to consistently add relational value included: Positive forms of communication that avoided criticism, a level of openness that invited sharing and self-disclosure, discussion that promoted a positive future together, spending time together in social activities, and working alongside one another towards a common goal. These same relational dynamics can be superimposed on the donor cultivation process to build systems that will engage donors in value-added communication and activities at strategic intervals to deepen levels of trust and identification.

**Rationale**

**The Significance of Improving Retention**

In an analysis of donor records conducted by Sargeant and Ewing in 2001, they were able to determine “that even small improvements in the level of attrition can generate significantly larger improvements in the lifetime value of the fundraising database” (Sargeant, 2008, p. 2). “A 10 percent improvement in attrition can yield up to a 200 percent increase in projected value” (Sargeant, 2008, p. 2). Goulart (2014) contends that the answer to donor retention rates lies within the organization’s level of authenticity with its donors. Too often nonprofit organizations are copying methods used successfully by other organizations without first testing whether those methods align with the desires and expectations of their donors. Building a plan that is successful relies not only in understanding tactics for fundraising, but in truly understanding the donors who support a nonprofit’s cause. “Prospect identification, evaluation, and cultivation play critical roles in an ongoing cycle of building resources for all organizations” (Ginn, 2005, p.11).

Building a successful donor communication plan is especially important when considering major gift donations. The first gift given by a major donor, is considered by Knowles and Gomes (2009) to be a trial gift. The donor is allowing the organization to build relational equity with them by: Demonstrating appreciation for the gift, keeping them informed about how the gift was
used, and sharing stories about who benefited specifically from their donation. A donor’s experience with this initial gift will determine the likelihood of whether they will give again. Therefore, “the consequences of a trial gift are very important” (Knowles and Gomes, 2009, p. 399). Fundraising is a perpetual “cycle of bringing people in to support your mission, keeping them involved, and deepening their relationship with your organization” (Ginn, 2005, p.11). By developing plans for donors that intentionally cultivate loyalty through a focus on satisfaction and identification, nonprofit leaders can significantly improve donor retention rates. This will also increase the organization’s return on investment and contribute to the development of long-term giving strategies that will provide the organization with a viable and sustainable financial future.

**Cultivating Loyalty**

Relational maintenance and consistent interaction between the organization and the donor seem to be keys to developing lasting relationships. This may be one reason why it is more attractive to be a new donor to an organization than to be an existing donor. First time donors are typically greeted by a welcome packet or system that includes a series of email exchanges, letters, and perhaps even a phone call or personal visit, all designed to invite the donor into the relationship and help them to learn more. Unfortunately, far too many organizations have not thought beyond this initial step in the relational development process. The relationship that began with a flourish of interest and activity based on a mutual desire to “do good”, slowly fizzes from lack of maintenance and engagement at deeper levels. “For nonprofit organizations to continue the provision of programs and services to the community, it is vital that they dedicate resources to relationship cultivation with all of its donors” (Waters, 2009, p. 342). Truly understanding a donor’s “individual talents, influence, and motivations” is critical to engaging supporters at a deeper level (Blansett, 2015, p. 40). This increased understanding not only benefits the nonprofit, but also raises the perceived value of the donor’s relationship with the organization (Blansett,
Feng (2014) discovered that two predictors of a lapsed donor’s positive response to reengagement were: 1) the donor’s preconceived view of his or her personal capacity and ability to give and 2) the length and depth of the relationship with the nonprofit.

Organizations that can develop systems of social exchange and reciprocity at regular intervals will increase their odds of maintaining positive and interactive relationships with their donors. According to Sargeant (2008), satisfaction and identification are two factors that determine donor loyalty. Sargeant states that satisfaction is determined by comparison between expectation and delivery. Donors “only experience satisfaction when their expectations are either met or surpassed” (Sargeant, 2008, p. 4). There is a complexity in how donors determine value as it relates to their giving to nonprofits. They are determining not only the value they receive from their relationship/exchange with the organization, but also the value of the organization’s fulfillment of its mission as it relates to the individuals or demographic for whom they are providing services (Sargeant, 2008). Sargeant determined in a 2001 study on donor loyalty that “donors indicating that they were ‘very satisfied’ with the quality of service provided [were] twice as likely to offer a second or subsequent gift as those who identified themselves as merely satisfied” (Sargeant, 2008, p.4). This behavior is consistent with the minimax principle of human behavior (Griffin, 2011, p. 117). Investors want to be associated with organizations that provide quality services at a maximum value while minimizing the personal cost to them as donors.

**Research Questions**

While this thesis has considered the factors that contribute to donor attrition and how nonprofit organizations can improve donor loyalty and retention rates, the research study will endeavor to serve as a representative case study of those findings. Examining the donor records of a single nonprofit’s database will determine the specific donor attrition rates and retention points of concern for that nonprofit. This information will also determine if retention can be improved
by developing specific donor engagement opportunities that allow for reciprocity and serve as catalysts to move passive donors to become active participants in the organization.

As a hypothesis, attrition rates will most likely be contributable to the following factors: lack of a donor appreciation strategy, not enough opportunities to be involved in ways other than through giving, and limited dialogue or opportunity for reciprocity. Identifying these strategic communication lapses may help to inform a development plan that will better meet and exceed donor expectations and improve retention rates. By creating donor engagement strategies that help constituents become active participants, the organization will be able to interact with donors on a deeper level and develop long term strategies for sustainability and growth.
Chapter 3: Scope and Methodology

Scope of the Study

The specific purpose of the study will be to determine if there is any correlation between dialogue or opportunities for reciprocal communication and rates of retention among nonprofit donors. For this study a single nonprofit organization will be evaluated as a representative case study to assess the relationship between communication variables, and donor retention. Due to the size and international reach of the nonprofit, only the U.S. domestic annual fund campaign will be evaluated. The goal will be to examine the current donor retention rates of the nonprofit’s annual fund, and evaluate cultivation processes against a framework of industry best practices and Altman and Taylor’s four phases of Social Penetration Theory (2016).

Using Altman and Taylor’s Theory (2016), as a framework for developing relationships, the study will seek to align the current donor cultivation practices of the nonprofit with three of the four phases of Social Penetration Theory. While the results of this one study will not be able to conclusively predict donor response in all nonprofits, it should be able to identify industry trends, opportunities for communication improvement, and potential areas for additional study.

Methodology of the Study

This assessment will evaluate donor records for the period of 2013 to 2016, to identify giving trends. Donor records will be analyzed to determine donor retention rates, the net change in revenue year over year, and the net change in the number of donors giving to the organization each year. Giving records will also be segmented by gift size to determine if there are variances in retention relative to individual donation amounts. This portion of the study, will also include a comparative analysis of the organization’s giving against giving profiles of other nonprofit organizations in the AFP’s Fundraising Effectiveness Survey Report (2016). This review of
current and past donor records will identify appropriate benchmarks and areas of concern. Donor categories to be identified include: 1) all donors who gave within a single year, 2) the total number of new donors acquired in that same year, 3) the number of new donors in a year who made a repeat contribution in the following consecutive year, and 4) lapsed donors who stopped giving but were regained. Reviewing this information for 2013, 2014, 2015, and 2016 will provide a strategic view of donor responses for the past three years.

The study will also seek to assess current communication practices and opportunities for dialogue and reciprocity in the donor engagement process. Interviews with the organization’s development team will provide the framework for a donor communication audit. This explanatory research will seek to determine if there is a correlation between dialogue with the donor and rates of retention. To that end, communication will be segmented into two categories: 1) Informational – one-sided communication that communicates through monologue and 2) Invitational – conversation that invites the donor to participate in dialogue with the organization. Explanatory research, as defined by Rubin (2010) seeks to “look for underlying causes and explanations of events” (p. 198). In this case, the study will seek to explain variances in donor retention. Data will be reviewed by gift amount with the assumption that higher level donors tend to have more opportunities for dialogue and interaction with the nonprofit. The study will seek to determine if there is a higher rate of retention with these donors, than with those who are communicated to as a mass population. This audit will attempt to identify the types of interaction being used in the donor cultivation process. It will also seek to determine if providing additional opportunities for reciprocity, could allow for deepening levels of identification with the organization and therefore increase donor retention.
Data Collection

Data collection for the case study will be two-fold and will correspond with both phases of the study. In the first phase, giving records from 2013 to 2016 will be evaluated to determine levels of donor retention from one year to the next. The nonprofit’s database manager will assist with the collection and evaluation of these documents. Once the donor data is collected for review, it will be analyzed through two tools provided by the Fundraising Effectiveness Project (AFP, 2016). The first is the FEP Fundraising Fitness Test and the second is the FEP Growth in Giving Report (AFP, 2013). Both of these assessment tools along with directions for data collection can be found on the AFP’s Fundraising Effectiveness Project’s website under tools.

The second phase will include content analysis of donor communications and intensive interviews conducted with the Development Director and Executive Director of the nonprofit organization. These interviews and content analysis will inform the donor communication audit portion of the study, and will help to identify opportunities for dialogue and reciprocal communication between the organization and its donors.

Validity of the Data

The organization under review is using The Raiser’s Edge data software developed by Blackbaud. The Fundraising Effectiveness Project (AFP, 2016) was sponsored by Blackbaud and designed for easy integration with Raiser’s Edge and E Tapestry data management tools. The Fundraising Effectiveness Survey Report (AFP, 2016) has been using these same data analytics since 2006 to review giving trends in nonprofit organizations. The data results for donor retention and attrition used for analysis in this study, will be consistent with the method of collection used in those reports.

The second portion of the study, the donor communication audit and interviews, will require
some qualitative research and may therefore be more subjective in nature. Qualitative research uses “interpretive methods of scientific inquiry” (Rubin, Rubin, Hardakis, and Piele, 2010). While every effort will be made to remain impartial, this study is investigating specific correlations between reciprocal communication and retention rates. This type of qualitative research per Rubin et al. (2010) allows the researcher to “approach research as value-driven and open to one’s subjective interpretation of the empirical world” (p. 198).

Reliability of the Data

The FEP Fundraising Fitness Test and the FEP Growth in Giving Report have both met a standard of “internal reliability” consistent with the “test-retest” standard (Rubin et al., 2010, p. 203) (AFP, 2013). According to Rubin et al. (2010) this means that the data can be considered reliable, because it can be measured twice with consistent results. It also is considered to be reliable because the two tests both provide overlapping data that remains consistent or “parallel” in analysis (Rubin et al., 2010, p. 203).

Ethical Considerations

The nonprofit organization has approved the use of their statistical data, as well as, representative comments that will provide additional depth to the study findings. The study participants as well as the organization will remain anonymous to protect the privacy rights of the donors, employees, and nonprofit institution. “Researchers need to adhere to a basic rule: Do No Harm” (Rubin et al., 2010, p.204). As a rule, Rubin et al. (2010) contend that a researcher should not ask others to participate in a study that they themselves would be unwilling to participate in.
Chapter 4: The Study

Introduction

The purpose of the study was to identify possible correlations between opportunities for social exchange through reciprocal communication and rates of nonprofit donor retention. This study examined a single nonprofit organization by reviewing three years of statistical data related to giving. Interviews were also conducted with key leaders of the organization to provide commentary for variances in the giving data and to inform the donor communication audit. The organization also shared copies of their donor communication calendar and a project charter that was recently developed to better inform their fundraising efforts.

The organization has recently made growth of the U.S. domestic annual fund a top priority for donor development. Money is raised from individuals within the U.S through the annual fund, but provides operation capital for funding global initiatives around the world. The organization has experienced declines in funding since 2011 due to changes in their events structure and how they convene with the primary donors of this campaign.

Results of the Study

Part I

The study was conducted in two phases. The first phase called for exporting four years of donor data from the organization’s giving records. The field queries in the data pull were for the donor identification number, the gift amount, and the date of the gift. This information was pulled from records beginning in January 2013 to November 2016. The use of this limited information made it possible to gain insight into donor retention and attrition for the nonprofit without violating the donors’ expectations of privacy related to their individual giving. The data was then fed into an Excel workbook with preset metrics provided by AFP (2016) and the Effective Fundraising Project. This Fundraising Fitness Test allowed for the analysis of donor retention not
only by year, but also by gift size. It also allowed for the comparison of retention data against industry averages, and provided information related to financial gains and losses each year.

The graph below in *Figure A-1* shows a decline in new donor retention over the past three years. This chart is divided by giving segments to show variances across the donor pool.

Donors who gave smaller amounts were more likely to stop giving after the first year, while those who made larger contributions were less likely to stop giving. This notable difference in donor loyalty can be attributed to the segmentation of donor communication. Donors who give $1,000 and above will usually receive more personal attention than those giving under $100. This is especially common in a small development office where resources of time and attention are limited.

Donor retention at the highest giving level; above $5,000 appears to be zero for 2016. However, it is typical for donors making significant gifts to wait until year-end to make their contributions. Often these gifts are given to provide tax advantages for an individual’s business or personal estate, so gift levels are determined more by tax incentive than by compelling communication. With 6 weeks remaining in the 2016 giving cycle, it is likely that this retention rate will increase before year’s end. Also, donors at this level require a higher degree of
individualized care and communication. At times, it can be difficult for a small development staff to meet all the expectations of these donors.

The graph below in Figure A-2 shows a decline in new donor acquisition over the past three years. This chart is divided by giving segments to show differences in acquisition trends.

![NEW DONOR ACQUISITION BY GIFT SIZE](chart)

The high percentage of increase in new donors during 2014 can be accounted for by the introduction of a new Development Director who was well respected within the organization’s donor communities. This individual was a former member of the leadership team who returned to the organization after being gone for four years. Throughout 2013 there was no one actively seeking donations on behalf of the organization’s annual fund, so the return to a donor-centric development program in 2014 saw significant gains in the first year of reactivation.

However, new donor acquisition rates have not kept pace with the rates of donors leaving each year. This means that each year since 2014, there have been increasingly fewer donors to manage. A significant reason for this decline is the organization’s shift from live professional development events, to video streaming. While the use of technology has allowed access to more potential constituents, the lack of convening as a group has reduced the opportunity for reciprocal communication and has therefore limited donor cultivation activities. The live
events have historically been the most effective vehicles for acquiring new and repeat donations. The organization has recognized this and has made provision in their budget to include 22 live, geo-targeted events in next year’s development calendar.

The graph below in Figure A-3 demonstrates the comparison of donor gains (blue) versus donor losses (red) over the past three years. This visual provides compelling evidence for the importance of both new donor acquisition and donor retention.

![Total Donor Gains and Losses](image)

**Figure A-3**

Current acquisition endeavors are not keeping pace with the number of donors choosing to leave each year. However, as mentioned previously, the 2016 figures do not include the next six weeks of year-end giving data. Therefore, donor gains may be higher than demonstrated by the 2016 year to date information available at the time of this study. The good news is that while there is still room for improvement in donor gains, the donor loss total is considerably lower for 2016 than in previous years. This is evidence of the work that is being done to be more intentional in the donor communication and cultivation process.
The graph above in Figure A-4 demonstrates the comparison of donor retention data between the national average of organizations included in the Fundraising Effectiveness Project and the organization involved in the case study (AFP, 2016). Based on the information provided in the FEP Report, the overall retention rate for new donors in the case study was well below the national average. This low percentage of repeat donors from one year to the next is a significant concern to the nonprofit organization. Efforts have been made this year to increase donor communication to those giving at lower gift amounts. This increase in communication includes phone and email appreciation strategies that provide opportunities for dialogue. The organization is projecting significant improvements in retention across multiple giving levels based on these and other changes.

Part II

The second portion of the study focused on conducting a donor communication audit to determine correlations between Altman and Taylor’s (2016) Social Penetration Theory and the process used by the organization to develop donor relationships. The communication audit and interviews with organization leadership were specifically seeking to identify opportunities for reciprocal communication between the donors and the nonprofit.
Consistent with Altman and Taylor’s (2016) first phase of Social Penetration, the organization shares its mission at video streamed leadership conferences, through social media, through their online and print industry specific magazine, and via their web presence. Currently most donor acquisition is reliant upon one-sided communication. This can work only because the organization is relatively well-known to those within their sector of the nonprofit world. This means that donors are beginning with a positive imagine of the organization and feel good about their association with its mission. This makes the move toward relational engagement and into the second phase of Social Penetration much easier for the organization’s constituency than it might be for an organization that is less well known.

Once an initial gift is made to the organization, there is a timely expression of appreciation to the donor, which begins the cultivation work of the second phase of Social Penetration. For online donations, there is an immediate email appreciation response with a short video to follow later. For all gifts above $100 dollars a “thank you” call is made to the donor within 48 hours of gift receipt. For donors who choose to set up monthly recurring donations of any amount, a “thank you” call and handwritten note are sent to the donor. The calls provide opportunity for reciprocal communication with the donor. During these calls information is exchanged and verified, and as a bonus, the donor can give feedback related to their experience with the organization. Calls are also made during Thanksgiving to all donors who have given $25 or more to the organization within the current and previous years. This is a critical touch point prior to year-end giving decisions. The biggest challenge in the current culture is that very few people will answer the phone when they receive a call from a number they don’t recognize. This can impede the donor’s progression to the next phase of Social Penetration.
Other opportunities for informational updates include a quarterly newsletter, industry specific legislative updates, and a January letter personally signed by the President of the organization. In June, there is another round of “thank you” calls and an appreciation video sent via email. Updates and video messages are shared through social media in an effort to keep potential and current donors informed and connected to the mission of the organization. In July, a letter is sent to lapsed donors who gave in a prior year, but have not made a gift in the current year. Smalls gifts are sent to thank donors making monthly recurring donations. Very few of the interactions outlined above provide opportunity for reciprocal communication. Without the opportunity for dialogue, there is little opportunity to move donors into the third and most deeply connected level of Social Penetration. Building trust with donors requires reciprocal communication. Without it donors may remain passionate about the cause but will likely choose to give to another charitable organization where they feel more engaged. This is evidenced by the organization’s past donor attrition levels (see Figure A-4).

Discussion

The organization overall has struggled with both new donor acquisition and retention since 2011 when the decision was made to use technology and video streaming for group interactions rather than live events. Prior to this time the organization was engaging annually in live events with more than 35,000 people across the U.S. There was also a summer intensive leadership event each year, which allowed those most passionate about the organization to come and spend a week with key leaders and influencers from around the world. These live interactions provided opportunities for dialogue and expedited relationship building. The relational exchanges allowed loyalty to be cultivated and maintained between donors and the organization. Each year there were events in the spring, summer, and fall to keep constituents engaged with the organization and to keep the mission top mind for donors. While these events were expensive,
with the immediate Return On Investment (ROI) being only one dollar raised for every 50 cents spent, the longer view of donor retention provides a far more compelling impact to the bottom-line. As opportunities for interaction among peers and with organization leaders diminished, so did annual giving and donor retention.

Realizing this unfortunate dynamic, the organization has recently added personal visits to donors giving above $500, into the development plan. The goal of these visits is to provide more opportunities for relationship building and authentic dialogue. Executive leaders of the organization will visit donors in geo-targeted areas, or in areas where donor locations coincide with previously planned travel. The organization has also altered its plan for professional conferences to include twenty-two live events within the next fiscal year. Leaders are also reinstating the summer leadership intensive to provide another point of connection with their most passionate donors. These positive changes will allow for greater levels of reciprocal communication and should help to improve donor engagement and retention.

The findings of this study seem to be consistent with Altman and Taylor’s (2016) Social Penetration Theory. By increasing opportunities for dialogue, donors experience deepening levels of identification with the organization and are more likely to continue the relationship. As with all relationship maintenance, consistency and reciprocity are critical to the continued cultivation of care. Without the investment of time and effort, donor relationships will move into the fourth phase of Altman and Taylor’s (2016) Social Penetration Theory. This phase of “depenetration”, characterized by disengagement and apathy, is the precursor to donor attrition.

Donors are personal about their money, so they must be personally engaged to make the decision to give their money away, even for a worthy cause. The extreme change in the organization’s giving from 2011 to 2015 is a significant indicator that dialogue must be present in the donor cultivation experience to retain loyal donors. With the change from live interaction to
video streaming events, the organization experienced a decline in giving that was equivalent to almost 60 percent of its previous annual budget. This experiential data from the organization was a far greater qualification of what the study was trying to discover than the study itself. Donors need interaction with an organization and its leaders beyond the facts and figures of the mission.

Buber had it right when he suggested that I-Thou relationships are like walking a narrow bridge fraught with the tension of being able to set aside our own objectives and truly focus on the needs and desires of the other person with whom we are seeking relationship (Griffin, 2011, p. 79). Building a donor-centric program demands this kind of dialogue. It requires being open to hearing and understanding the donor’s objective in giving, not just focusing on the goals of the organization and its funding priorities. Understanding what motivates a donor to give is an important step in developing a lasting relationship that provides fulfillment for the donor and for the mission of the organization.

The greatest obstacles to building highly relational programs for donor development in nonprofits are time and resources. Yet, nonprofits that have dedicated staff for major gift development are better at providing high levels of interaction with their large capacity donors. A major gift officer will usually be assigned a caseload of donors made up of no more than 125 households. They are then responsible for building specific programs designed for those individual givers. This method of donor development is highly relational and provides maximum occasions for dialogue and personalization. However, this model of relationship building is not cost effective or easily replicated for lower tiers of giving. This means even organizations that have impressive standards of major donor cultivation, still struggle with lack of donor loyalty and engagement at lower levels. Evidence of this is that the case study organization’s donor retention rates improved in higher giving segments, yet remained tragically low in the smaller giving sectors. This inverse relationship between donor relationships and giving levels is consistent with
the national findings as well. The lower the gift, the higher the attrition rates; the higher the donation amount, the less often those donors stop giving.

Sargeant and Woodliffe (2007) theorized about the difference between active and passive donors. They contend that the passive commitment is found where donors feel disengaged from the nonprofit, yet still give out of a perceived obligation to “do the right thing” or because they simply haven’t bothered to withdraw their regular support. While there may be some passive donors who have remained active with the case study organization out of a former sense of loyalty, more recent donors to the organization seem have not reached a relational threshold that warrants even a passive connection after the first year. Active donors, by contrast, remain engaged in the mission of the organization and passionate about the good they are accomplishing together (Sargeant and Woodliffe, 2007). At the case study organization, these active donors are found among those with higher giving capacity, where there is still attention given to dialogue and live interaction. This also seems to give more evidence to the importance of dialogue in the donor engagement process.

The constant drive to engage more donors at higher and higher levels of funding can create a dynamic where I-Thou relationships easily become I-It forms of engagement (Griffin, 2011). This shift in relationship caused by pressure due to the organization’s funding needs, can leave donors feeling unsatisfied with their giving experience or worse, manipulated into donating. This style of fundraising does a disservice to both the donor and the organization. Whenever relationships are rushed or donors do not feel engaged with the organization in accomplishing the mission, everyone will eventually pay the price. Unfortunately, those most impacted by this loss of relationship are those being helped by the nonprofit’s services. Occasionally, there is overlap between donors and consumers of nonprofit services, but most often it is the consumer
stakeholder in this scenario who has the most to lose and the least control over dialogue, relationship building, or giving outcomes.

Protecting a nonprofit organization and those most in need of its services is reliant upon building strong donor partnerships which produce sustainable funding. This means not only focusing on the priorities of the organization, but also on the needs of the donor. The study findings demonstrate that there is power in convening. Providing opportunities for stakeholders to interact on a personal level and engage in dialogue that was outside of the organization’s funding needs allowed for deeper levels of engagement. These deeper relational levels created stronger ties to the organization and its leaders, which in turn contributed to donor longevity. Conversely, once the opportunity for convening at conferences was removed, the opportunity for dialogue diminished, as did rates of donor retention. The personal connection with donors was eroded when the opportunity for live interaction was replaced by technology. This cause and effect relationship between donor retention and dialogue creates a strong case for focusing nonprofit resources on developing more opportunities to convene with stakeholders. Reciprocal communication seems to be the glue that helps donors hold fast to an organization rather than moving on after the first year of giving.
Chapter 5: Summary and Conclusions

Limitations of the Study

The case study organization reviewed for this thesis was a large international association. However, only the U.S. annual fund campaign was included in the study. While the annual fund is a major priority for the organization, there may be donor records that were not included in the statistical data because the gifts made were designed for another purpose or restricted in some way. Donors may often choose to designate or restrict gifts above $10,000. This means that there may be yet another segment of donors who were not included in the study. Since donors giving at high levels tend to receive more individualized attention and communication from nonprofit organizations, it is possible that the inclusion of this additional segment of donors would have shifted the donor retention numbers in a positive direction. Therefore, it is also possible that a review of all giving records from the nonprofit organization and its supporting foundation, would potentially have moved retention numbers to be more consistent with the national average of 50 percent, rather than the 30 percent findings of the data analyzed.

Another limitation of the study was that donors were not surveyed for input and feedback as a part of the study process. Since donors often indicate their level of satisfaction through their contributions, the assumption could be made that new donors who made additional contributions in a subsequent year were either “satisfied” or “extremely satisfied” with the current level of communication they are receiving from the nonprofit. It could also then be assumed that new donors who chose not make a contribution in a subsequent year, were either “not satisfied” or did not feel deeply connected to the cause they were being asked to support. These assumptions provided the basic framework for the initial assessment of donor retention rates, yet including a donor satisfaction survey into the study process could have provided a means to better validate these assumptions.
Recommendations for Further Study

The data for this case study was a snapshot of three years of giving records and interviews with leaders of the organization. While this study shows evidence to suggest a strong correlation between dialogue and donor retention, a longitudinal study which follows the giving patterns of a specific segment of donors over several years, could provide additional findings about how opportunities for dialogue impact donor behavior. It would also be interesting to determine if certain types of dialogue make a significant difference in donor behavior. For example, does asking for specific advice related to a donor’s expertise create a more positive experience for the donor than sharing a broad range of ideas in a brainstorming session? Does convening with donors in larger groups have the same staying power for retention, as individual and small group meetings? Does expressing appreciation more often without increasing dialogue improve donor retention? While some of these areas may have more to do with individual preferences, it would be fascinating to determine areas of consistency across donor segments.

In the case study, the use of technology instead of live meetings seemed to have a negative influence on donor retention. Are there ways that technology can be better leveraged to enhance opportunities for reciprocal communication, rather than hinder it? Are there ways to use technology or social media to improve the ROI on cultivating dialogue with donors at lower giving levels? Are there ways to better use Frequently Asked Questions in an automated communication format that mimics reciprocal communication? Can automated communication or even social media engagement offset the need for authentic dialogue, or do these attempts at mass producing communication simply mock the donor and expedite their departure?

Another area of interest for future research is related to how Millennial donors make decisions about where to invest their resources. Baby Boomers tend to focus their time, attention, and giving, on specific nonprofits led by people they respect and trust. They want the organization
and its people to be above reproach and to deliver excellent services at a high ROI. Millennials, however, tend to be more cause oriented and will focus their giving on a specific charitable philosophy or mission, rather than on the organization. They seem to care more about “How something is being accomplished” than “Who is doing the work”. This shift in focus could have significant impact as more and more Millennials enter the donor arena. Millennials are cause oriented and enjoy being part of a movement for change, more than a cog in an organizational wheel. Since they are usually giving at lower levels, their interactions with organizational leaders are minimal and they have less opportunities for dialogue outside of social media. This lack of affinity for giving to specific organizations, combined with little opportunity for authentic dialogue, could spell disaster for donor retention in the coming years. Research should be conducted now to determine how best to capture the hearts and minds of the next generation of donors.

**Summary and Conclusions**

The purpose of this thesis was to identify and discuss correlations between donor retention and opportunities for reciprocal dialogue. Since most nonprofit organizations spend their time on marketing their mission through venues that allow for only one-sided discourse, there was interest in determining whether providing opportunities for dialogue increased donor participation and retention. The work of the Association of Fundraising Professionals (AFP) through their Fundraising Effectiveness Project (EFP) has gone a long way in identifying the trend of donor exodus after the first year of engagement with a nonprofit (AFP, 2016). The Project has been able to track donor trends over the past ten years, but as yet, there has been little improvement in donor retention. While the focus of the EFP project has been on collecting statistical data and building awareness, minimal work has been done to find solutions for stemming the tide of lapsed donors.
The current national retention rate among nonprofits remains just below 50 percent after the first year of engagement with an organization.

Altman and Taylor’s (2016) Social Penetration Theory seems to provide a possible explanation for why these relationships are fizzling after the first brief flame of interest. Without an opportunity for dialogue and reciprocal communication, there is not enough interaction to break through the first layer of surface level engagement. While this lack of donor communication seems to permeate all levels of giving, it is more evident in donors contributing less than $1,000 per year. This is especially true in larger nonprofits that have dedicated staff for developing relationships with those giving above a certain dollar amount each year. There appears to be a distinct connection between individualized communication and giving levels culminating in a difference in donor retention among giving segments. Those who desire more interaction from the nonprofits they support choose to invest in fewer organizations at higher dollar amounts. In contrast, those whose budgets preclude giving larger amounts, may choose a cause to support rather than an individual organization. This is consistent with Barber and Levis’ (2013) research, which found that donors did not become less generous over time, but rather shifted their giving to other organizations with whom they had a deeper connection or a greater level of trust. Therefore, it is believed that organizations which increase opportunities for interaction and dialogue at multiple levels of giving have a unique opportunity to increase their donor retention rates. It is not cost effective to retain all donors, especially those whose annual gifts are less than the cost of mailing information to them. However, there is significant evidence to suggest that focusing on building relationships with current donors at multiple giving levels, is far more beneficial and cost effective than being in constant pursuit of acquiring new donors to replace the 50 percent who stopped giving after the first year.
Donor retention is critical to developing sustainable models of funding for nonprofit organizations. It is only over time and through multiple gift interactions that donors develop enough confidence to entrust large sums of money to a nonprofit organization. These interactions may happen over the course of months, years, or even generations. The only guarantee is that these larger gifts will not happen if donors choose to leave instead of deepening their relationship with the organization or its leaders.

The current national donor retention rate for nonprofits rests at a dismal 50 percent. This means that nation-wide, nonprofit organizations are losing half of their new donors each year. The old methods of one-sided discourse are no longer adequate for relationship maintenance, and the current methods of donor engagement do not offer enough opportunity for reciprocal communication in all but the highest giving segments. The retention rate differences between those donors giving above $1000 per year and those giving below $250, tell a compelling story about the staying power of dialogue. In the case study, those donors who received more live interaction via meetings, conferences, phone calls, individual emails, or personal visits, were more likely to make a subsequent gift to the organization. In contrast, donors who received less opportunity for personal interactions, were more likely to discontinue their giving or give elsewhere. Since acquiring new donors is more expensive than retaining current donors, nonprofits are losing significant resources with every donor that chooses to leave. Per Barber and Levis (2013), organizations who fail to retain current donors are not only spending more time and money to search for new donors, they are also missing the opportunity to develop a loyal core of individuals capable of articulating the mission of the organization in a compelling way.

There is sufficient evidence to suggest that creating vehicles for donor interaction that include reciprocal communication will positively impact the number of donors who choose to
make repeat donations. Dialogue is the difference then between a donor having a transactional relationship with an organization or a transformational experience which inspires them to deeper levels of connection and greater levels of generosity. Since a donor’s first gift to an organization is rarely their largest, dialogue is not only the secret to donor retention, it is also the cement that paves the road to future sustainability.
References


APPENDIX A
CODE OF ETHICAL STANDARDS

ETHICAL STANDARDS (Adopted 1964; amended Oct 2014)
The Association of Fundraising Professionals believes that ethical behavior fosters the development and growth of fundraising professionals and the fundraising profession and enhances philanthropy and volunteerism. AFP Members recognize their responsibility to ethically generate or support ethical generation of philanthropic support. Violation of the standards may subject the member to disciplinary sanctions as provided in the AFP Ethics Enforcement Procedures. AFP members, both individual and business, agree to abide (and ensure, to the best of their ability, that all members of their staff abide) by the AFP standards.

PUBLIC TRUST, TRANSPARENCY & CONFLICTS OF INTEREST

- Members shall:
  - not engage in activities that harm the members’ organizations, clients or profession or knowingly bring the profession into disrepute.
  - not engage in activities that conflict with their fiduciary, ethical and legal obligations to their organizations, clients or profession.
  - effectively disclose all potential and actual conflicts of interest; such disclosure does not preclude or imply ethical impropriety.
  - not exploit any relationship with a donor, prospect, volunteer, client or employee for the benefit of the members or the members’ organizations.
  - comply with all applicable local, state, provincial and federal civil and criminal laws.
  - recognize their individual boundaries of professional competence.
  - present and supply products and/or services honestly and without misrepresentation.
  - establish the nature and purpose of any contractual relationship at the outset and be responsive and available to parties before, during and after any sale of materials and/or services.
  - never knowingly infringe the intellectual property rights of other parties.
  - protect the confidentiality of all privileged information relating to the provider/client relationships. O never disparage competitors untruthfully.

SOLICITATION & STEWARDSHIP OF PHILANTHROPIC FUNDS

- Members shall:
  - ensure that all solicitation and communication materials are accurate and correctly reflect their organization’s mission and use of solicited funds.
  - ensure that contributors receive informed, accurate and ethical advice about the value and tax implications of contributions.
  - ensure that contributions are used in accordance with donors’ intentions.
  - ensure proper stewardship of all revenue sources, including timely reports on the use and management of such funds.
  - obtain explicit consent by donors before altering the conditions of financial transactions.

TREATMENT OF CONFIDENTIAL & PROPRIETARY INFORMATION

- Members shall:
  - not disclose privileged or confidential information to unauthorized parties.
  - adhere to the principle that all donor and prospect information created by, or on behalf of, an organization or a client is the property of that organization or client.
  - give donors and clients the opportunity to have their names removed from lists that are sold to, rented to or exchanged with other organizations.
  - when stating fundraising results, use accurate and consistent accounting methods that conform to the relevant guidelines adopted by the appropriate authority.

COMPENSATION, BONUSES & FINDER’S FEES

- Members shall:
  - not accept compensation or enter into a contract that is based on a percentage of contributions; nor shall members accept finder’s fees or contingent fees. Be permitted to accept performance-based compensation, such as bonuses, only if such bonuses are in accord with prevailing practices within the members’ own organizations and are not based on a percentage of contributions.
  - neither offer nor accept payments or special considerations for the purpose of influencing the selection of products or services.
  - not pay finder’s fees, commissions or percentage compensation based on contributions.
  - meet the legal requirements for the disbursement of funds if they receive funds on behalf of a donor or client.

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A DONOR BILL OF RIGHTS

DEVELOPED BY:


PHILANTHROPY is based on voluntary action for the common good. It is a tradition of giving and sharing that is primary to the quality of life. To assure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the not-for-profit organizations and causes they are asked to support, we declare that all donors have these rights:

I. To be informed of the organization’s mission, of the way the organization intends to use donated resources, and of its capacity to use donations effectively for their intended purposes.

II. To be informed of the identity of those serving on the organization’s governing board, and to expect the board to exercise prudent judgment in its stewardship responsibilities.

III. To have access to the organization’s most recent financial statements.

IV. To be assured their gifts will be used for the purposes for which they were given.

V. To receive appropriate acknowledgement and recognition.

VI. To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by law.

VII. To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.

VIII. To be informed whether those seeking donations are volunteers, employees of the organization or hired solicitors.

IX. To have the opportunity for their names to be deleted from mailing lists that an organization may intend to share.

X. To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.