

# Transparency from charities about how funds are used builds trust and increases giving

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Charitable and humanitarian organizations are increasingly tapping into a \$30 billion crowdfunding market, not only to raise funds but to build donors' trust by being more transparent, according to research from Indiana University's Kelley School of Business.

Certified charities like the American Red Cross regularly use [crowdfunding](#) after hurricanes and wildfires. But other, often local, organizations that are quickly created after emergencies can compensate

for their lack of government certification by posting frequent updates about how funds are being used.

Authors of the paper are Jorge Mejia, assistant professor of operations and decision technologies; Alfonso Pedraza-Martinez, associate professor of operations and decision technologies and Grainger Faculty Fellow; and Gloria Urrea, a visiting scholar of operations and decision technologies.

Mejia, the paper's lead author, noted its timeliness in light of several recent fraud cases involving charitable giving, such as the college admissions scandal and questions about the charitable status of politicians' private foundations and [religious organizations](#).

"Our paper tackles some of these challenges head on by providing a way to increase the transparency of these organizations online," he said.

The paper's findings also have implications for donors, who need to pay attention to how charities are using donations, as shown through regular operational updates and other communication and certification.

"Our results indicate that individuals and [humanitarian organizations](#) willing to start crowdfunding campaigns benefit from transparency," the researchers said. "As updates have a [positive effect](#) on donations, organizations can increase funding by keeping donors informed on a regular basis about the campaign's progress."

The process of receiving approval from the Internal Revenue Service as a certified 501(c)(3) tax-exempt [organization](#) can take months, long after the immediate needs of a disaster have passed. In the meantime, local organizations accept donations to help with recovery efforts immediately using crowdfunding.

"Donations increased both when campaigns provided frequent updates about the work of the charity and when campaigns were certified," the Kelley professors said. "Strikingly, we found that the size of the positive effect derived from operational transparency—from communications work—is much greater than the size of the effect of conventional transparency, from being a certified tax-exempt charity.

"But not all updates are the same. Operational [transparency](#) increases the financial benefits of updates," they added. "Campaign organizers should focus their efforts on posting work-related updates to describe how the campaign is achieving its objective."

Researchers collected data from a large online platform for charity crowdfunding and analyzed nearly 108,000 emergency campaigns over a seven-year period. Just over half of the campaigns posted at least one campaign update, and just 9 percent of the campaigns were certified.

Each work-related word in updates increased donations on average by \$65 per month, while being a certified [campaign](#) raised funds on average by \$22 a month.

The research article, "Operational Transparency on Crowdfunding Platforms: Effect on Donations for Emergency Response," appears online in the journal *Production and Operations Management*.

Provided by Indiana University

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