



Understanding whether debt deters donors

Home > Insights into arts and culture > Fundraising in arts and culture

This research was conducted by **Cleopatra Charles** at **Rutgers University, USA**

Summary

This paper uses data from a sample of arts organisations in the United States to examine whether taking on debt (to finance capital projects, for example) reduced the likelihood of attracting private donations. It found that organisations paying a lot of debt-accrued interest compared with their other expenses attracted less donor finance (merely having a lot of debt seems to make less of a difference).

The study used financial data from 3,200 organisations in the DataArts database between 2009 and 2012

Donors rely on financial reports to evaluate whether or not an organisation should receive their donations. They either use financial disclosures (or the advice of others built upon those same disclosures) to 'evaluate the effectiveness or efficiency of the charities they support'.

Some aspects of an organisation's balance sheet were associated with lower levels of donations

Increased spending on interest was a key factor: 'a 10 per cent increase in the interest expense to total expense ratio is associated with a 0.27 per cent decrease in donations'. Having a smaller asset base (which can make an organisation look like a less sustainable concern) was also associated with lower levels of donations.

Sometimes donor behaviour was not associated with financial information or performance

‘Older organisations receive fewer donations when taking the debt load into consideration’. This was surprising, as they are supposed to have built up a larger stock of goodwill with the public. The results in this case may be explained by the fact that people prefer to support organisations perceived to be more dynamic and with potential for future growth. This seems yet more plausible when realising that ‘individuals who contribute to arts and cultural nonprofit organisations do not attach the same value to the benefits and costs of past projects (as do managers inside the organisation)’.

Keywords

USA

donor motivation

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