CHARITABLE DONATIONS

A Thesis
Submitted to the Graduate Faculty
of the
North Dakota State University
of Agriculture and Applied Science

By

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In Partial Fulfillment of the Requirements
for the Degree of
MASTER OF SCIENCE

Major Department
Agribusiness and Applied Economics

August 2017

Fargo, North Dakota

# North Dakota State University
## Graduate School

**Title**

CHARITABLE DONATIONS

**By**

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The Supervisory Committee certifies that this ***disquisition*** complies with North Dakota

State University's regulations and meets the accepted standards for the degree of

**MASTER OF SCIENCE**

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**ABSTRACT**

Attracting donors to a charity and retaining continuous donations is one of the major concerns of a charity, because this largely affects the capacity of the charity to continue or to expand its cause. As the market for charitable donations has a large number of donors and charities, the way charities brand themselves is very crucial to receiving donations. This work looks to question whether a charity can increase its donations by branding itself close to the ideal perception of a charity in the donor. The question is approached using a two-staged lease square regression model that shows that the congruence between ideal charity perception and the real charity brand in fact plays a significant role in increasing charitable contributions by donors.

**DEDICATION**

I dedicate this work to my mother I. W.  Senewirathne, and to my father, U. G. D. Ariyathilaka

for the countless hardships which they had to go through to support my ventures where I failed

and succeeded.

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**INTRODUCTION**

Charitable organizations are a very important part of the modern-day society, because these organizations are engaging in valuable services with the desire to change the world. Charitable organizations focus their work on a large number of felids namely supporting individuals who suffers from poverty, domestic abuse, homelessness, and many other social problems of human society. There are large non-profit organizations such as the United Nations organization which span their operations throughout the world, regional organizations such as Dakota Medical Foundation focus their work on a specific region and food pantries or homeless shelters that have operations limited to a city. By their nature, charitable organizations have the opportunity to expand their operations in many sectors or geographical regions (e.g. United Nations) or a very specific cause in one city (e.g. homeless shelter). These organizations provide tremendous support to the needy in the society by channeling money, education, medicine, food, water, shelter and any other resources from their donors to the needed segments of the society through providing a platform for collective action towards a better world.

Since there are a large number of organizations that span the world and countless areas of support, the main issue that every charitable organization comes across is securing donations to fund its operations. With the competition in the market for donations, charitable organizations have to distinguish themselves apart from other organizations. Therefore, to achieve this goal, these organizations require branding techniques to market themselves and secure funds from their donors.

With this understanding charitable organizations have acquired techniques from commercial marketing. However, charitable organizations cannot afford to have a large marketing budget or to rebrand themselves time to time in order to reach out to donors (process

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of rebranding is time consuming and internal resistance for change is huge in the sector of charitable organizations). Therefore, having a sound brand image is very important for a charity in order to increase their donations, to get their message to society or to have donor loyalty.

This project looks into the relationship of brand personality (human traits that associate with a brand) in the charitable organizations. Specifically, to identify that would it increase the donations to a charity, if the donors' ability to see the characteristics of the charity they donate to, is closer to their ideal perception of a charity. First I introduce the concept of congruence to measure the distance between the ideal characteristics and actual characteristics of a charity, as identified by a donor. Then I measured the effect of congruence on the charitable donations.

To achieve this goal, I used Qualtrics software to collect information from the donors associated with Dakota Medical Foundation on ideal and actual characteristics of charitable organizations. Brand personality, big five personality traits, and demographics of donors. Then ran a two-stage lease squares regression (as there existed a endogeneity issue between congruence and donations) predicting congruence and then regressing donations to a given charity as the dependent variable and used congruence and annual income as independent variables. I concluded that charities with actual characteristics close to a donors' ideal charity characteristics does enjoy a higher amount in donations.

Outcomes of this study asserts the importance of charities having brand personality traits that are close to their donors' ideal characteristics of a charity. Further, if a charity does not have characteristics closer to the ideal characteristics of its donors, the charity should rebrand itself or engage in marketing to convince its donors that in fact the charity is close to the ideals of donors.

# 1. LITERATURE REVIEW

## 1.1. Psychological and Economic Factors

### 1.1.1. Variables Contributing to Giving Behavior

Economists tend to explain an individual charitable activity through utility maximizing framework, in which utility $U = f\left(h_w, h_v, m, l\right)$ is a function of hours volunteered (unpaid labor) $h_v$; monitory donations $m$; hours worked in the labor market $h_w$; leisure time $l$. These donations of time and money are run by two main mechanisms. First, the warm feeling an individual receives through donations, and second, the perceived social image of prestige and social acceptance individual receives through donations (Brown & Taylor, 2015).

Empathy is one of the biggest factors that contribute to the donor behavior and can be identified as one emotional feeling towards another's misfortune. A person's feeling of being a member of a certain group provides motivation to increase the amount an individual would donate (Sargeant A. , 1999). Donors tend to support the charities that represent the needy in acceptable ways because they relate to the empathy within the donors (Eayrs & Ellis, 1990)

Age is a key factor in determining donor behavior because as donors get older they tend to associate with charities that closely represent their beliefs thus increasing donations (Nicholas, 1992). The age of an individual would appear to be directly related to his/her propensity to engage both in charity giving and level at which such behavior will take place (Nicholas, 1992) "60% of charitable gifts in USA come from people aged 60-76" (Royer, 1989). However, younger generations are less generous in charitable donations. For example, in the United Kingdom, "the younger generation seems less inclined to believe in philanthropy. They are much more consumption driven; they buy things for themselves. Young people today like to spend money on eating out, on clothes and other things – more than people did 20 years ago"

(Simpson, 1986). There is another possibility to explain why older individuals tend to donate more: elderly members of society are able to experience pseudo-social interaction through the relationships they build up with charities and, in essence, exchange one form of social interaction for another (Caplow, 1984). Older individuals represent a greater revenue opportunity than younger individuals because they are more likely to be wealthy (Mochis , 1992).

The relationship between gender and charitable giving is debatable. Not only are there arguments and research to show that gender is an important factor in charitable giving, but there are also arguments that disagree and state that gender is not an important factor. For example, John List finds that women are more generous than men (List, 2004). Women, studies show, want to know more about the actions of the charity before making a decision when compared to men (Braus, 1994). However, in 2000, Clive Belfield and A. P. Beney find that women, though more likely to respond to a request for a donation, donate less than men (Belfield & Beney, 2000). And Chu-Ping Lo and Sanae Tashiro state that there is no direct effect of gender on charitable donations (Lo & Tashiro, 2013).

In addition, when measuring the amount a donor would make, the size of a business and the income level have a positive correlation. This indicates that when a business has a higher market value it donates more to charitable causes, and the same effect applies on donors where a high net worth donates more to charity compared to low net worth donor. However, the size of the household (area of the house, location and the number of people living in the house) has a negative correlation to the amount that is donated to charity. This is due to the fact that when the house gests bigger, located in an expensive neighborhood or has many members living in the same household there are additional costs that are involved (higher insurance, electricity bills,

education costs and health costs) this reduces the amount a donor associated with the above-mentioned household can donate (Smith, Kehoe, & Cremer , 1995).

One of the key factors that generates donations to a charity is trust. If a donor trusts the actions of a charity he donates to, he will be more willing to continue donating money to that charity (Milne & Gordon, 1993). Donors are becoming more sophisticated, discriminating and selective, preferring to develop deeper relationships with those organizations they choose to support. Thus, once recruited to support a charity, a given donor will be significantly more likely to give again. However, the decision process of donations includes a few significant steps which start with the perception an individual has about a charity (brand, image etc.). Then it leads to donor characteristics such as extrinsic determinants (age, gender, income, social class), perceptual reaction (portrayal, fit with self, perceptual noise) and intrinsic determinants (need for self-esteem, guilt, sympathy). Next it leads to processing determinates (past experience. Judgmental criteria) with a final result of a decision to donate. (Sargeant A. , 1999) (Sargeant & Lee, 2004), (Gounans, 2005) (figure1).

Donors' past experience with a charity determines the level of trust they have towards the charity's work. This leads a donor to commit to the charity, its mission, and financial position. The donors pay importance to trust as it is related to integrity and reliability. Trust plays an important role in consumers' decisions of whether to donate money, time, or in-kind goods or services to such organizations (Venable, Rose, Bush, & Gilbert, 2005) (Keahler & Sargeant, 1998). All donors are concerned about integrity and emotional and physical nourishment which they receive through charitable ventures. However, integrity is a bigger concern among professional donors as it is closely related to accountability (Venable, Rose, Bush, & Gilbert, 2005).

Trust leads to donor commitment to the cause of the charity. Commitment is defined as "an enduring desire to maintain a valued relationship." Commitment is a very important factor in the fundraising process, because being able to make donors commit to the cause of the charity, greatly increases donations (Moorman, Zaltman, & Deshpande, 1992). Research suggests that whether the potential donor commits to the charity depends on the perceived cost-benefit trade-off (a comparison between the cost to the donor and the perceived benefit to the cause). Charities may affect this trade off by marketing with the use of social comparison by conveying that others have helped and by strategic altruism conveying that helping is a good strategy (Bendapudi, Singh, & Bendapudi, 1996).

Commitment to charitable behavior can be enhanced by stressing that it is the norm through the use of social comparisons. Because normative behavior is reinforced by society, knowledge that others are behaving in a specific fashion creates pressure on a person to do the same. Moreover, providing a fictitious list of donors and donations (in a simulation) results in higher compliance rates and higher average donations. In addition, providing a longer list resulted in greater donations (Bendapudi, Singh, & Bendapudi, 1996).

In addition, it is noted that trust, commitment and giving behavior are related to each other in a pattern such that the trust would lead to commitment and commitment would lead to giving behavior (Sargeant & Lee, 2004)(figure 2) (figure 3).

### 1.2. The Eight Mechanisms

According to Rene Bekkers and Pamala Wiepking, there are eight key factors that contribute to donations: awareness of need, solicitation, costs and benefits, altruism, reputation, psychological benefits, values and efficacy (Bekkers & Wiepking, 2010).

The awareness of need mostly comes with the information provided through (mass) media: a higher coverage on the need brings in more donations to the cause (Simon, 1997). In addition, when a charity is in operation for a long period of time and has a large number of volunteers to deliver information, such charities attract more donations (Marcuello & Salas, 2000).

Solicitation accounts for the largest portion of the donations, as "85% of the donation acts among respondents in the 1996 Independent Sector survey on Giving and Volunteering in the preceding year follow a solicitation for a contribution (Brayant, Slaughter, Kang , & Tax, 2003). This is also because people who donate more money to charities get more requests for donations (Bekkers R. , 2005a).

Donating money to a charity still has its costs, by lowering the costs, the amount of donations are increased (Bekkers R. , 2005c) (Eckel & Grossman, 2003) (Karlan & List, 2006). However, this does not mean that donors act on the self-interest of being cost efficient, because there is always a financial gain from not donating money (Sargeant & Jay, 2004). Further, we can identify a negative correlation between tax level and amount donated, such that a deduction on tax for charity donations greatly increases the donations (Weipking, 2007).

Altruism is the most common factor in donating money where people donate money with self-motivation through goodwill (Bekkers & Wiepking, 2010). However, when an individual knows the other donors whom have donated money for the same cause it has an impact to reduce the amount the individual donates (Kingma, 1989).

The donors can be rewarded for their donation through reputation where an individual's social image is being enhanced through the announcements of the lists of donors (Bekkers &

Wiepking, 2010). Announcing the names of the donors increases the motivation of the viewers to donate (Silverman, Robertson , Middlebrook, & Drabman, 1984).

Psychological Benefits relates to the feeling of happiness a donor receives when donating: this is an internal factor to the donor (Bekkers & Wiepking, 2010). This also enhances how an individual sees himself in that he sees himself as a better person after the donation (Schwartz, 1970).

Although human values cannot be manipulated through marketing, values have a role in deciding why a donor chooses one charity over the other (Bekkers & Wiepking, 2010) because an individual is most likely to donate to a charity that would align with his/her set of values (Bennett & Gabriel, 2003).

Donors have the need to make a difference through donations to the specific cause they support through the charity (Bekkers & Wiepking, 2010). It is also true that if individuals assume that their donation would not make a difference, they likely do not engage in donating money (Diamond & Kashyap, 1997) (Duncan, 2004) (Mathur, 1996) (Radley & Kennedy , 1992) (Smith & McSweeney, 2007).

Table 1. The Eight Mechanisms

| Mechanisms | Tangible or Intangible | Within, Outside or Between people | Actors | Targets |
|---|---|---|---|---|
| Need | Both | Within, outside and between | Beneficiaries and organizations | Donors |
| Solicitation | Both | Between | Beneficiaries and organizations | Donors |
| Costs/benefits | Tangible | Outside | Organizations | Donors |
| Altruism | Tangible | Outside | Beneficiaries and organizations | Beneficiaries |
| Reputation | Intangible | Between | Alters | Donors |
| Psychological costs and benefits | Intangible | Within | Donors | Donors |
| Values | Intangible | Within | Donors | Donors & beneficiaries |
| Efficacy | Intangible | Within | Organizations | Donors |

## 1.3. Government Policies and Their Effects

War revenue act 1917 is the first instance that introduced the government policy of

charitable donations as tax deductible. This stated that a taxpayer is entitled to charitable

contribution deduction for gifts of money or property made to a charitable organization.

However, it did not allow deducting services made to charitable organizations. This revenue act

allowed a tax deduction equal to 15 percent from the actual amount that an individual donates to

religious, charitable, scientific and educational purposes (War revenue act 1917) (Lindsey, 2003). The Economic Recovery Act 1981 & Tax Reform Act of 1986 reduced the marginal tax rate for different income levels (23% from the tax rate) especially making a significant decrease of tax rates for wealthy households thus effecting the charitable contributions from the high-income individuals (Lindsey, 2003).

### 1.3.1. Price Elasticities of Tax

There have been many studies conducted to examine the price elasticities. Laura Tiehen (2001) estimated the price elasticity to be -1.15, while David Joulfaian conclude it to be -2.8 and John List found it to be between -1.1 and -1.5 (Joulfaian, 2000) (List, 2004) (Tiehen, 2001). This implies that the price elasticity of tax is relatively elastic; therefore, a small proportional increase in tax leads to a higher proportional decrease in charitable donations and vice versa. The price elasticity is a very important component in estimating the induced changes in donations and changes in tax incentives. It also indicates the cost-effectiveness of a price incentive. If the price elasticity of donations is inelastic, then the tax revenues that government loses from providing a tax subsidy is greater than the gain for charitable organizations through the tax incentive, implying that tax savings given to donors by the tax incentive may not be entirely passed on to the charity (Glenday, Gupta, & Pawlak, 1986).

### 1.4. Marketing Charity

A large portion of the donations for non-profit organizations comes through fund raising events; although these organizations do not consider themselves as brands they have been known to have a consistent style and actions that allow them to have a steady social picture (Tapp, 1996).

A charity donation can also benefit an individual or a business economically and socially when a charity publishes the names of its donors. This acts as a medium of marketing to enhance the public figure of the donor thus increasing his economic and social benefits (Smith, Kehoe, & Cremer , 1995).

A brand is a "name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers" (American Marketing Association, 2017). The customers' associate brands with significant meaning, this impact behavioral purchasing power, further, it states that a brand can attach human feelings to a product (Udell, 2017). According to David A. Aaker, A brand can be identified by a name, symbol or a slogan which separates a product from its competitors. "A brand thus signals to the customer the source of the product, and protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical" (Aaker D. A., 1991)

When it comes to increasing the giving behavior or the amount, that donors use different approaches, the approach a charity maintains would affect the amount of donations received, "lowering the sums requested in direct mail greatly increased the donor compliance rate" (Wayant & Smith, 1987)

It is especially likely that donors who "[receive] positively framed messages, designed to make them feel good, are statistically more likely to respond than those donors offered primarily negative messages, designed to make them feel bad" (Benson & V. L. Catt, 1978). The donors will donate more when they feel that the recipient is similar to themselves (Coliazzi, Williams, & Kayson, 1984). If a charitable donation can enhance self-satisfaction in donors, it increase the amount of the donation (Piliavin, Piliavin, & Rodin, 1975).

**1.4.1. The Big Five Instruments**

According to American psychology association human personality refers to "individual differences in characteristic patterns of thinking, feeling and behaving." (American Psychology Association, n.d.). There are two major theories that explains human personality, person-situation theory and trait theory. The person-situation theory looks into "whether the main causes of a person's behavior were rooted internally in the person's personality system, or externally in the characteristics in the environmental situation." The trait theory brings the idea that how individuals make decisions in different situations depend on internal characteristics of personality. The fundamental goal of trait theory is to "characterize individuals in terms of a comprehensive but finite and preferably small set of stable dispositions that remained invariant across situations and that were distinctive for the individual." This has been represented in big five framework (Wee, 2004).

Big Five dimensions, "do not represent a particular theoretical perspective but were derived from analyses of the natural-language terms people use to describe themselves and others." (John, Naumann, & Soto, 2008). Five factor model provide a common ground, a basic phenomenon and a natural framework for organizing research. There can be other dimensions of human personality, however, some form of big five is needed for a proper description for individual differences (McCare & John, 1992). The big five structure provides a replicable representation of the major dimensions of traits description in English (John, Naumann, & Soto, 2008).

The Big-Five framework is a hierarchical model of personality traits with five broad factors, which represents personality at the broadest level of abstraction. Each bipolar factor (e.g., Extraversion vs. Introversion) summarizes several more specific facts (e.g., Sociability),

which, in turn, subsume a large number of even more specific traits (e.g., talkative, outgoing). The Big-Five framework suggests that most individual differences in human personality can be classified into five broad empirically derived domains (Gosling, Rentfrow, & Swann Jr., 2003)(figure 4).

In their 2002 study, Roccas, Sagiv, Schwartz, & Knafo identify Big Five Instruments as follows:

Individuals who score high on Extraversion tend to be sociable, talkative, assertive and active; those who score low tend to be retiring, reserved, and cautious.

Individuals who score high on Openness to experience tend to be intellectual, imaginative, sensitive, and open-minded. Those who score low tend to be down-to-earth, insensitive, and conventional.

Individuals who score high on Agreeableness tend to be good-natured, compliant, modest, gentle, and cooperative. Individuals who score low on this dimension tend to be irritable, ruthless, suspicious, and inflexible.

Individuals high in Conscientiousness tend to be careful, thorough, responsible, organized, and scrupulous. Those low on this dimension tend to be irresponsible, disorganized, and unscrupulous

Individuals high on Neuroticism tend to be anxious, depressed, angry, and insecure. Those low on Neuroticism tend to be calm, poised, and emotionally stable.

In the paper, "Charitable Behavior and the Big Five Personality Traits: Evidence from UK Panel Data," Sarah Brown and Karl Taylor found that agreeableness, extraversion, and openness are positively and significantly related to monetary donations to charitable organizations. Further, they state that the positive effect of agreeableness ties in with its

characteristic that individuals who score higher on agreeableness are more altruistic and trusting. The results show that openness to experience has the largest effect on donations where an increase in one standard deviation increases the giving percentage by 6.4 percent where agreeableness is 0.6 percent and extraversion is .08 percent. Conscientiousness is inversely related to charitable donations. This closely aligns with the characteristic that individuals who score high on conscientiousness tendency to manage their money with a very high level of financial self-control (Brown & Taylor, 2015).

### 1.5. Brand Personality

With the sizable deductions of government funding for nonprofit organizations, the need for marketing charities had gradually increased, as the charities have had to finance their operations through private financing (Bendapudi, Singh, & Bendapudi, 1996).

Brand personality is measuring perceptions of human personality traits inferred on the basis of individuals' behavior, physical characteristics, attitudes and beliefs, and demographic characteristics (Park, 1986). Several brand personality traits have a higher importance in nonprofit organizations compared to for-profit organizations. Nonprofit organizations have to recognize the importance of developing a corporate identity that focuses on emotional and physical nourishment that donors receive, or being perceived as compassionate toward their cause. Furthermore, nonprofit organizations have to emphasize integrity. Because many stakeholders evaluate their actions and intentions, charities must be committed not only to public good, but also to honesty. They must be forthright as they request and handle donation in many forms such as time, money etc. (Venable, Rose, Bush, & Gilbert, 2005).

Brand personality describe brand in terms of human personality characteristics. This supported an increase in awareness and attachment to the brands. It helps to related to brands as

another person. Most work in brand personality use measurements of human personality factors and attributes (Wee, 2004). Brand personality of a single product may showcase individual judgements; however, collective results may show the inclusion of characteristics from more than one brand (Milas & Mlacic, 2005)

Branding charities has become important for continuing operations in the market of charitable giving. Robert Wray was the first to explicitly debate the relevance of branding to the charity sector, when he argued "[t]he starting point is the proposition that fund raising is marketing applied to charitable ends. Without effective fund raising, all charities will wither and die and this implies that for a charity to thrive through the nineties and into the next century, it will have to apply the techniques of successful brand marketing to its fund-raising programs" (Wray, 1994).

In his paper, "A strong charity comes from strong beliefs and values," Joe Saxton notes that charities should adopt the techniques from the commercial sector in order to create a powerful brand; however, the approach should be unique in its treatment of donors compared to the approach of commercial brands to its customers. In addition, he discusses the reasons why the charitable sector needs a more coherent and individual model of branding than just adopting the commercial sector techniques (Saxton, 1995).

Saxton states the following three main reasons: one, charities are the product of a desire to change the world. This means their personalities are potentially far deeper than those of most commercial brands.to use commercial techniques for such inherently powerful brands is both expensive and unnecessary; Two, for a commercial brand to be successful, it typically needs a large marketing budget. Charities, quite simply, cannot afford this approach. Therefore, direct marketing and public relations need to be extensively used; Three, because of its nature, a

corporate identity relaunch is very difficult for charities. The cost and the internal resistance can be very large, also very time consuming. The charities must work on developing their brand; however, should not copy commercial sector too closely (Saxton, 1995).

The number of nonprofit organizations is rapidly increasing, leading to a costly competition for donations. Because of this, having a separate identification through branding with a name, logo, design, jingle, etc. has become a very important element in differentiating charitable organizations (Michel & Rieunier, 2011).

The growing need for effective management of a charity brand image has accompanied the trend towards marketing orientation. The model set by a number of high profile UK charities which renamed and repositioned themselves in the early 1990s greatly encouraged other charities to manage their brand images in a systematic manner. These high-profile charities achieved increases in income of upwards of 10 per cent per annum following their adoption of new images. Further, in addition to contributing significantly to financial performance of a charity, a sound brand image can increase the ability of the nonprofit organization to influence key external audiences (Bennett & Gabriel, 2003).

When a charitable organization has strongly established its brand, there exists no social ambiguity. A person need not rely on others for information when donating to a charity with an established brand (Bendapudi, Singh, & Bendapudi, 1996). Because of the vast number of nonprofit organizations and the increased competition for donation dollars, it follows that development of a strong nonprofit brand occurs at the organizational level and may provide a distinctive competitive advantage (Venable, Rose, Bush, & Gilbert, 2005).

Personality traits are associated with a brand in a direct way, such as a brand's imagery, which is defined as the set of human characteristics associated with a typical user of a brand.

Therefore, the personality traits of the people associated with brand transferr directly to the brand (McCracken, 1989).

Brand personality has several implications for practitioners in the field of nonprofit marketing. Brand personality can enhance the image of nonprofit organizations by enabling them to increase their donations through strong branding. Charitable organizations can use brand personality to create a more specific and unique image by clearly communicating their personality dimensions.

It is shown that different nonprofit organizational structures such as health, environment, human rights, arts, humanities etc. have different brand personality characteristics; however, it is also true that with powerful branding the nonprofit organizations can position themselves more strongly among other charities from the same sector. A good understanding of their brand personality dimensions offers nonprofits the potential to capitalize on developing and implementing strategies to expand their donations. Development of a strong brand personality can efficiently position a nonprofit organization inside and across sectors to decrease the competition for donations (Venable, Rose, Bush, & Gilbert, 2005).

In the paper, "Dimensions of Brand Personality" Jennifer Aaker synthesized five dimensions of brand personality, namely sincerity, excitement, competence, sophistication and ruggedness on the following basis: "One, all five factors had eigenvalues greater than one; Two, a significant dip in the Scree plot followed by the fifth factor. Three, the five factors were most meaningful, rich and interpretable. Four, the five-factor solution explained a high level of variance in brand personality (92%). Five, the five-factor solution was the most stable and robust, as illustrated by subsample factor analysis described subsequently (e.g. males versus female, younger versus older subjects)." (Aaker, 1997). She further identified fifteen facets

(personality characteristics that are associated with brand personality dimensions) (Fifteen Personality Traits) that relate to these five dimensions and formally defined as "the set of human characteristics associated with a brand" (Aaker, 1997).
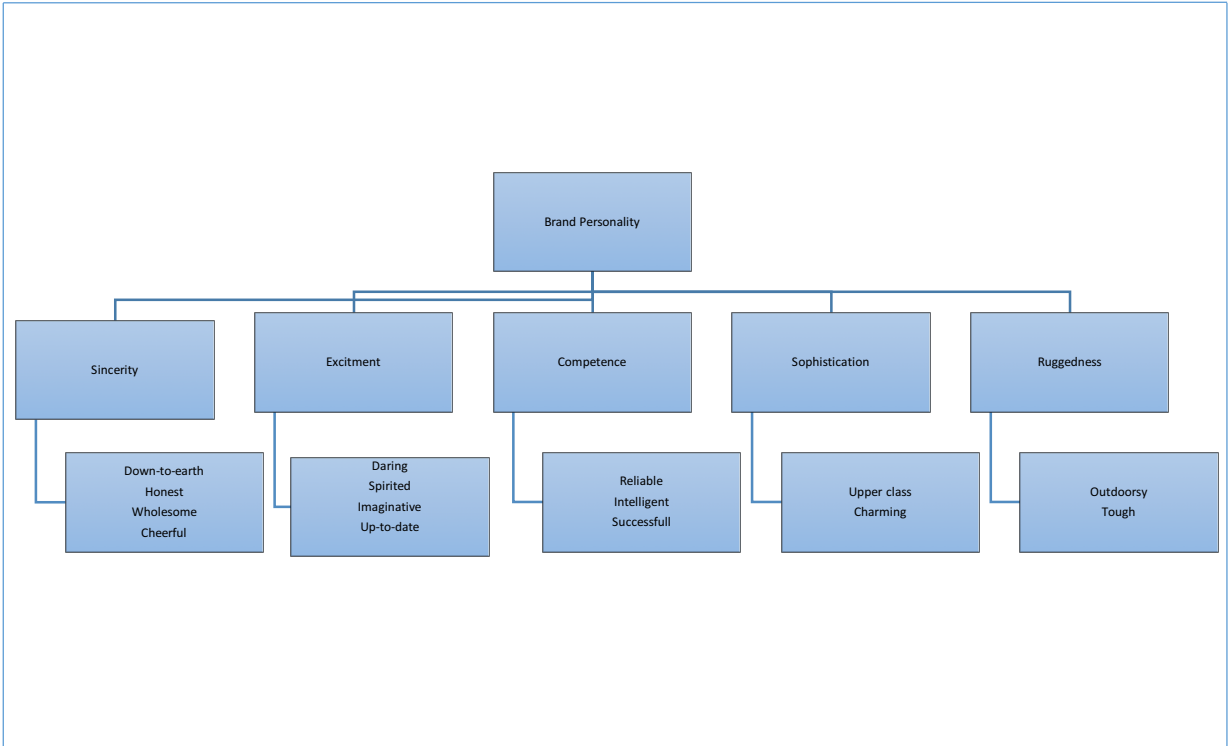
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                        │  Brand Personality  │
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│Sincerity│ │Excitment│ │Competence│ │Sophistication│ │ Ruggedness│
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| Down-to-earth | Daring | Reliable | Upper class | Outdoorsy |
| Honest | Spirited | Intelligent | Charming | Tough |
| Wholesome | Imaginative | Successfull | | |
| Cheerful | Up-to-date | | | |

Figure 1. Fifteen Personality Traits
(Aaker, 1997)

## 2. DATA

First, a panel of researchers created the individual portions of the questionnaire that was required for several different research projects. The final draft of 254 questions contained different types of questions including open ended questions, multiple choice questions, ranking questions and numeric entry questions. All the questions then entered to Qualtrics, which supported web-based, mobile application-based systems for convenient distribution and data collection. Then the questionnaire was handed over to the Dakota Medical Foundation to be distributed among the donors for charities that are listed with Dakota Medical Foundation. Further, donors were given the option to name a charity at the end of the questionnaire and Dakota Medical Foundation pledged to give away four $500 donations to a charity selected at random from the list named by donors. We received 497 responses from donors from 11 states including Arizona, Connecticut, Indiana, Michigan, Minnesota, Nebraska, North Carolina, North Dakota, Ohio, South Dakota, and Virginia. However, a majority of the responders were from Minnesota and North Dakota (76.58%) (Figure A4).

Demographics from the questionnaire show that a majority of the donors, 79 percent, were female, which is consistent with Brown and Taylor's findings that "in comparison, women are more charitable than men" (Brown & Taylor, 2015) (Figure A5). Although there were donors from all age groups, a majority of them come from the 46 to 75 age group (Figure A6). The donors come from a variety of academic backgrounds, from high school graduates to doctor of philosophy, and more than 85% of the donors had a bachelor's degree or higher (Figure A7). Further, a large majority of the donors (97 percent) are white, and the rest of the donors are distributed among Asian, Native Hawaiian or Pacific Islanders, American Indian or Alaska Native and "Other" classifications (Figure A8). The donors have an annual income distribution

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from 0 to 1,000,000 US dollars, and a majority of the donors are from 0 to 50,000 range, which shows that in this region, individuals would engage in charitable activities regardless of their income classification (Figure A9).

One important question is whether the donors think that their donations are focused (or not) to specific areas. If so, this helps determine whether donors react to donation requests from many charity areas or if they focus their donation to specific fields and charities. This is highly related to donor loyalty to charities and most of them believe their donations are at least somewhat focused in specific areas (Figure A10). Then we asked a follow up question to identify which specific areas donors like to engage. We asked donors to rank 20 areas of concentration in a five-level ranking system from extremely important to not at all important. The data shows that the donors believe education, poverty reduction, health care, health and wellness, human rights, youth or children affairs and religious affairs to be most important among the focus areas and economy or federal deficit, tax policy, international issues and developing infrastructure as very less important (Table A3). In addition, more than 90 percent of the donors agree that they donate to the same charity each year which shows their loyalty to the charity and tendency to focus on a specific cause (figure A11).

A majority of the donors agree that they donate when they believe that their gift can make a difference (Figure A12). This shows the importance of reaching out to donors with a message of the difference that their donation creates. More than 68 percent of the donors agree that they donate because of the personal feeling of satisfaction they receive through the donations (Figure A13). In addition, more than 73 percent agree that they usually donate to a cause that affected them in the past (Figure A14); this shows that charitable organizations increase their donations by reaching out to individuals who have been affected by a specific cause.

We also looked into the resources that donors take advantage of when deciding on their donations; the data show that more than 47 percent of the donors depend on direct engagement with charitable organizations when deciding on donations, and close to 20 percent relies on public reports to decide. Compared to those two resources close to 10 percent rely on independent nonprofit reports such as charity navigator and other websites that provides information on charitable organizations and more than 13 percent depend on social media to decide on which charity to support (Figure A15). This provides important information on the donor behavior because it helps to understand that donors put much value in their personal connection with the charity they work with or on the charities that reach out to donors with personal messages.

In addition, we asked donors about the professions they take advice from before deciding on their donations. It shows that a majority of the time, donors depend on their social network of peers to decide which charities they should donate to. However, donors also rely on the advice of nonprofit professional, independent financial advisors, and accountants on deciding on their donations, so there is not necessarily a higher amount of dependence on peer networks (Figure A16).

Table 2. Summary Statistics

| Variables | Number of observations | Mean | Standard Deviation | Min | Max |
|---|---|---|---|---|---|
| Extraversion | 435 | 8.634 | 3.046 | 2 | 14 |
| Openness | 431 | 10.46 | 2.057 | 3 | 14 |
| Emotional Stability | 431 | 10.52 | 2.247 | 3 | 14 |
| Agreeableness | 433 | 11.01 | 1.914 | 4 | 14 |
| Conscientiousness | 385 | 8.242 | 1.453 | 4 | 14 |
| Congruence | 388 | 9.333 | 1.765 | 1 | 13.69 |
| Age | 361 | 54.60 | 14.90 | 17 | 105 |
| Annual Income | 265 | 105,900 | 99.49 | 0 | 1,000,000 |
| Net Worth | 206 | 1,130,000 | 1926 | -24 | 15,000,000 |
| Donations | 309 | 2286 | 5288 | 0 | 50,000 |

## 2.1. Description of Data

As the survey covers a large amount of information on the donors, this research required

donor information on their net worth, age, annual income, charitable giving in 2015, big five

instruments of behavior, how individuals idealize a charity and how they identify and rank the

charity they support in the same characteristics of their ideal charity. In the paper, "Dimensions

of Brand Personality," Jennifer L. Aaker identifies 15 brand personality traits: Down-to-earth,

Honest, Wholesome, Cheerful, Daring, Spirited, Imaginative, Up-to-date, Reliable, Intelligent, Successful, Upper class, Charming, Outdoorsy, Tough, all relating to each of five main factors: Sincerity, Excitement, Competence, Sophistication, Ruggedness. The questionnaire contained questions to measure these 15 personality traits for the conceptually perfect charity of the donors and as well as the charity they support. These questions contained a scale 1 to 7, listed as strongly disagree, disagree, somewhat disagree, neither agree nor disagree, somewhat agree, agree, strongly agree; where strongly disagree correlates with 1 and strongly agree is 7.

Table 3. Description of Variables

| Variable | Description |
|---|---|
| Age | Age of the donor |
| VolunteerCount | How many hours the donor volunteered in 2015 |
| NetWorth | Net worth of the donor |
| AnnualIncome | Annual income of the donor in 2015 |
| TotalCharitableGiving2015 | Total amount the donor donated in 2015 |
| HighNetWorth | The donor has an annual income more than $500,000 |
| GivingPercentageIncome | $= \dfrac{Total\ charitable\ giving\ in\ 2015}{Total\ annual\ income\ in\ 2015}$ |

Table 3. Description of Variables (continued)

| Variable | Description |
|---|---|
| Extraversion | Individuals who score high on Extraversion tend to be sociable, talkative, assertive and active; those who score low tend to be retiring, reserved, and cautious. |
| Agreeableness | Individuals who score high on Agreeableness tend to be good-natured, compliant, modest, gentle, and cooperative. Individuals who score low on this dimension tend to be irritable, ruthless, suspicious, and inflexible. |
| Conscientiousness | Individuals high in Conscientiousness tend to be careful, thorough, responsible, organized, and scrupulous. Those low on this dimension tend to be irresponsible, disorganized, and unscrupulous |
| EmotionalStability | Individuals low on EmotionalStability tend to be anxious, depressed, angry, and insecure. Those high on this dimension tend to be calm, poised, and emotionally stable |

Table 3. Description of Variables (continued)

| Variable | Description |
|---|---|
| Openness | Individuals who score high on this dimension tend to be intellectual, imaginative, sensitive, and open-minded. Those who score low tend to be down-to-earth, insensitive, and conventional. |
| congruence | The distance from a donor's ideal characteristics of a charity to characteristics of the charity him/her donating. |
| DonationToXCharity | Amount the donor donated to his/her preferred charity |

# 3. EMPIRICAL MODEL

## 3.1. Research Question: How Congruence Affects Charitable Donations?

The objective of this research is to measure the effect of how congruent the characteristics of a donors' ideal characteristics of a charity are to the characteristics of the actual charity they support in affecting their philanthropic behavior. Furthermore, we use information such as the big five instruments of behavior and variables such as age, annual income. First, I intend to test how congruence affects charitable donations. Second, I will identify how each of the dimensions of the big five personality traits affect congruence (to test the hypotheses that higher the score of these characteristics and higher the possibility one gains access to social circles that allow them to engage with charities that are much closer to their ideal characteristics of a charity). Third, to test how variables such as age and net worth affect congruence, I hypothesize that when donors are older, they tend to find charities that align closely to their ideal characteristics of a charity; and donors with a higher net worth gain access to more information that allow them to identify charities that align more to their ideals.

Using Bereusch-Pagan/ Cook-Weisberg test for heteroskedasticity I identified that there exists heteroskedasticity in the system of regressions. This implies that variables used for regressions have an unequal distribution across values. It can be due to unobserved heterogeneity which occurs when variables that are unobserved in the system have a correlation to observed variables. This results in an uneven distribution in variance (heteroskedasticity). This situation makes the coefficients unbiased and consistent, however, they are inefficient and estimated standard errors are inconsistent. Therefore, usual standard errors are invalid. To counter this I used robust standard errors as it would relax the assumption of homoskedasticity.

### 3.1.1. Hypothesis 1

There is a positive relationship between each of the Big Five personality traits and congruence.

1A: there is a positive relation between congruence and extraversion

1B: there is a positive relation between congruence and agreeableness

1C: there is a positive relation between congruence and emotional stability

1D: there is a positive relation between congruence and openness

1E: there is a positive relation between congruence and conscientiousness

### 3.1.2. Hypothesis 2

Higher congruence leads to higher donations.

## 3.2. Congruence

$$Distance = \sqrt{\sum_{i=1}^{i=15}(Ideal\ Characteristic_i - Actual\ Characteristic_i)^2}$$

It has been stated that the greater the congruity between the human characteristics that consistently and distinctively describe an individuals' actual and ideal self of the perception of a brand the greater the preference towards that brand (Aaker, 1997). This equation measures the deviation of the actual charity to the ideal charity for each of the fifteen of brand personality traits from Jennifer L. Aaker's research (Aaker J. L., 1997). Then, this distance is squared to attain the positive values and summed over the fifteen dimensions; finally, square root was taken to get the final value of the distance. In the distance, the smaller the value of the distance the characteristics of the actual charity, it is closer to ideal charity of the donor in the fifteen dimensions. This research requires that the measure of congruence in the form that the higher the value of congruence, the actual charity is close to ideal charity characteristics. In order to

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transform the measure, the distance was subtracted from the maximum distance from the scale

and added one as the scale starts from one instead of zero.

To transform the scale, the following equation is used.

$$Congruence = Maximum\ Distance - Distance + 1$$

This can also be shown in the expanded form as follows.

$$Congruence = Maximum\ Distance - \left( \sqrt{\sum_{i=1}^{i=15} (Ideal\ Characteristic_i - Actual\ Characteristic_i)^2} \right) + 1$$

When measuring the effects of congruence on donations there is a endogeneity effect that

runs from congruence to donations as well as donations to congruence which can be explained as

follows, if the charity is more close to the donors' ideals he/she tend to donate more, further it

can be seen that donors who donate more tend to seek out charities that are much closer to their

ideal perceptions of a charity. To overcome this, I used a two stage least square regression by

using Age and Emotional Stability as instrumental variable for congruence as they explain the

variable congruence but not donations.

### 3.2.1. 2-Stage Least Square Regression Model

#### 3.2.1.1. Stage 1 of 2 SLS

$$Congruence = \alpha_1 Age + \alpha_2 Emotional\ Stability + \varepsilon_1$$

#### 3.2.1.2. Stage 2 of 2 SLS

$$Donations = \beta_1 Annual\ Income + \beta_2 Congruence + \varepsilon_2$$

# 4. RESULTS AND DISCUSSION

Table 3 shows the results from the ordinary least square regressions with different combinations of age, annual income and big five personality traits agreeableness, extraversion, conscientiousness emotional stability and openness as the independent variables and congruence as the dependent variable (with robust standard errors). The results from these regressions indicate that only age has a very strong statistical significance which can be identified as when individual get older they seek out charities that closely align with their ideal brand of a charity. Furthermore, emotional stability shows a statistically significant result; however, it has a very small coefficient, which implies that emotional stability only explains a very small portion of the congruence.

Using the results from column 2 from the table 3 provide following conclusions on the hypotheses 1A,1B,1C,1D,1E

- 1A. there is not enough evidence to conclude that a higher score in extraversion leads to higher congruence

- 1B. there is not enough evidence to conclude that a higher score in agreeableness leads to higher congruence

- 1C. the evidence supports the conclusion that a higher score in emotional stability leads to higher congruence

- 1D. there is not enough evidence to conclude that a higher score in agreeableness leads to higher congruence

- 1E. there is not enough evidence to conclude that a higher score in conscientiousness leads to higher congruence

Table 4 shows ordinary least square regression results for congruence and annual income as independent variables and donations as dependent variables (with robust standard errors). When congruence is the only independent variable, it shows a statistically significant positive result. However, when annual income is included in the regression along with the congruence, the congruence does not have a statistically significant result where annual income does.

The two stage least square regression in table 4 (with robust standard errors), (where the first stage estimates congruence using the estimates age and emotional stability and the second stage estimates donations using congruence and annual income) shows that there is a positive and statistically significant relationship between annual income and congruence to donations. In comparison, the two-stage least square regression shows statistical significance in both annual income and congruence where the ordinary least square regression shows statistical significance for annual income when annual income and congruence both are used as dependent variables. Therefore, I accept the second hypothesis that higher congruence lead to higher donations.

The coefficient of OLS 1 shows that 1 point increase in congruence scale leads to $304.60 increase in donations (column 1, table 4). According to the OLS 2 regression 1 point in congruence scale leads to $290.10 increase in donations and 1 dollar increase in annual income will result in 3 cents increase in donations (column 2, table 4). Finally, the results from 2SLS can be interpreted as a 1 point increase in congruence scale will lead to $1171.00 increase in donations and 1 dollar increase in annual income will result in a 3 cents increase in donations (column 3, table 4).

In comparison of three regressions, although I saw a decrease in the amount of donations from OLS 1 to OLS 2 (when annual income is introduced in the OLS 2), there is a drastic increase in the coefficient of congruence in the 2SLS ( $290.10 increase to $1171.00 increase in

donations due to 1 point increase in congruence scale). Since, in 2SLS, I have statistically significant results for both congruence and annual income I believe that coefficient in 2SLS better explains the increase of donations (in comparison to OLS 1 and OLS 2). Finally, the very large value shows that having a brand personality that is close to the donors' ideal characteristics of a charity will largely increase the donations. Further, the above statement is confirmed by the elasticity of congruence (4.7801) and elasticity of annual income (0.0012) measured at means, because it shows a percentage increase in congruence will result in a larger percentage increase in donations compared to a percentage increase in annual income will have on the percentage increase in donations.

There are three diagnostic tests that have been done in the 2SLS; the Hanson J statistic (Sargan statistic) with a p-value of 0.6716 indicates that we can accept the null hypothesis that the instruments that were used in the 2SLS are valid and are uncorrelated to the error term. The Anderson Lagrange multiplier test (Kleibergen-Paap test) for under-identification has a p-value of 0.0000 therefore the null hypothesis which states that the system is under-defined is rejected which concludes that independent variables are relevant. Finally, the Durbin-Wu-Hausman test for endogeneity has a p-vale of 0.0534; therefore, we reject the null hypothesis and accept that there is an endogeneity issue in the system. This validates the use of two stage least square regression.

In conclusion, age is the dominant parameter in predicting congruence, which can be explained as when an individual gets old and attain a much experience, he/she has more freedom and capacity to seek out charities that aligns more with his/her ideals. The income level or the big five personality traits have no significant relation to congruence except for emotional stability which shows a weak relationship; however, it has a very small coefficient.

2SLS show that income does play an important role in the charitable behavior of an individual, as expected when a donor has more money he/she tend to donate more. Further, the statistically significant result in congruence states that it is important for the charities to brand themselves in a manner that comes close to the ideal charity brand of its donors.

# 5. CONCLUSION

According to existing literature there are many factors that drives donor behavior including age, sex, annual income, education, size of the household (area, members etc.) and tax benefits. Furthermore, there are many studies that identify the donor behavior through psychological characteristics such as big five factors of personality, trust, past experience, empathy, social recognition etc. The literature extensively recognizes the importance of a sound brand image for a charity in order to secure donations to support its operations. The current study accumulates the above mention concepts to evaluate the importance and the effects of congruence between ideal and actual characteristics of a charity perceived by donors.

The results show that age and emotional stability are determining factors of congruence, where age showed the strongest relationship to congruence among two variables. This shows that as the donors' age increases, donors seek out charitable organizations that align with their ideal brand image of a charity. Although, emotional stability showed a statistically significant result the coefficient was very small compared to age. The two-stage least squire regression showed that congruence does have a positive and statistically significant result in predicting donations.

This study contributes to the existing literature showing that by branding itself closer to a donor's ideal brand image of a charity, a charity can increase the amount of donations received. Further, this confirms the importance of branding in the market of charitable donations, because it asserts the importance of understanding the characteristics of donors to increase charitable donations through successful branding.

Finally, there are three important implications from this study that would increase donations for charities.

1. It is important for charitable organizations to have a sound brand personality that is close to ideal brand personality characteristics of their donors.

2. If the brand personality characteristics of the charity is not close to ideal characteristics of donors a charity should adjust its brand personality to match the ideal characteristics of its donors.

3. If the brand personality of a charity matches the ideal brand personality characteristics of donors, nevertheless, donations are not increasing, the charity should engage in marketing to change the perception of donors about the charity.

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Table A1. Results with congruence as the Dependent Variable

| VARIABLES | (1) model 1 | (2) model 2 | (3) model 3 | (4) model 4 | (5) model 5 | (6) model 6 | (7) model 7 |
|---|---|---|---|---|---|---|---|
| Age | 0.0351*** | | | 0.0309*** | 0.0336*** | 0.0434*** | 0.0440*** |
| | (0.00698) | | | (0.00768) | (0.00722) | (0.00796) | (0.00704) |
| AnnualIncome | | | | | | 1.35e-06 | 1.39e-06 |
| | | | | | | (1.51e-06) | (8.99e-07) |
| Agreeableness | | 0.0169 | | -0.0191 | | 0.0112 | |
| | | (0.0540) | | (0.0554) | | (0.0624) | |
| Extraversion | | 0.0292 | | 0.0337 | | 0.0351 | |
| | | (0.0339) | | (0.0364) | | (0.0400) | |
| Conscientiousness | | -0.0856 | | -0.0946 | | -0.0222 | |
| | | (0.0740) | | (0.0782) | | (0.0874) | |
| EmotionalStability | | 0.139*** | 0.0881** | 0.104** | 0.0413 | 0.0629 | |
| | | (0.0483) | (0.0421) | (0.0525) | (0.0463) | (0.0558) | |
| Openness | | 0.0415 | | 0.0621 | | 0.0465 | |
| | | (0.0587) | | (0.0591) | | (0.0673) | |
| Constant | 534.8*** | 535.0*** | 535.7*** | 533.9*** | 534.4*** | 532.8*** | 534.2*** |
| | (0.395) | (0.767) | (0.457) | (0.861) | (0.536) | (1.029) | (0.413) |
| | | | | | | | |
| Observations | 337 | 342 | 384 | 299 | 334 | 219 | 247 |
| R-squared | 0.086 | 0.045 | 0.012 | 0.124 | 0.088 | 0.181 | 0.149 |

Robust standard errors in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table A2. Results with Donations as Dependent Variable

| VARIABLES | (1) OLS 1 | (2) OLS 2 | (3) 2SLS |
|---|---|---|---|
| congruence | 304.6** | 290.1 | 1,171** |
| | (143.0) | (192.4) | (455.0) |
| AnnualIncome | | 0.0255*** | 0.0252*** |
| | | (0.00936) | (0.00952) |
| Constant | -161,207** | -155,809 | -628,721** |
| | (76,589) | (103,112) | (244,098) |
| | | | |
| Observations | 289 | 203 | 197 |
| R-squared | 0.010 | 0.185 | 0.111 |
| Hansen J | | | 0.489 |
| Kleibergen-Paap | | | 5.85e-06 |
| Endogeneity | | | 0.00873 |

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
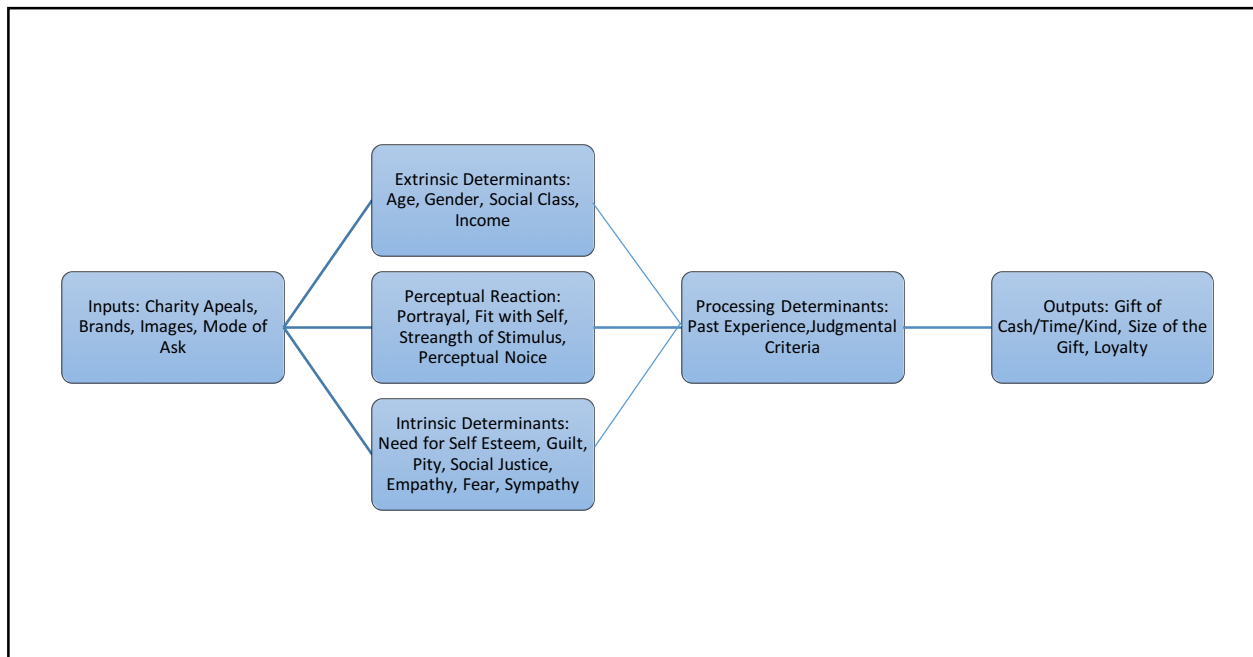


Figure A1. Psychological Model 1
(Sargeant A. , 1999)
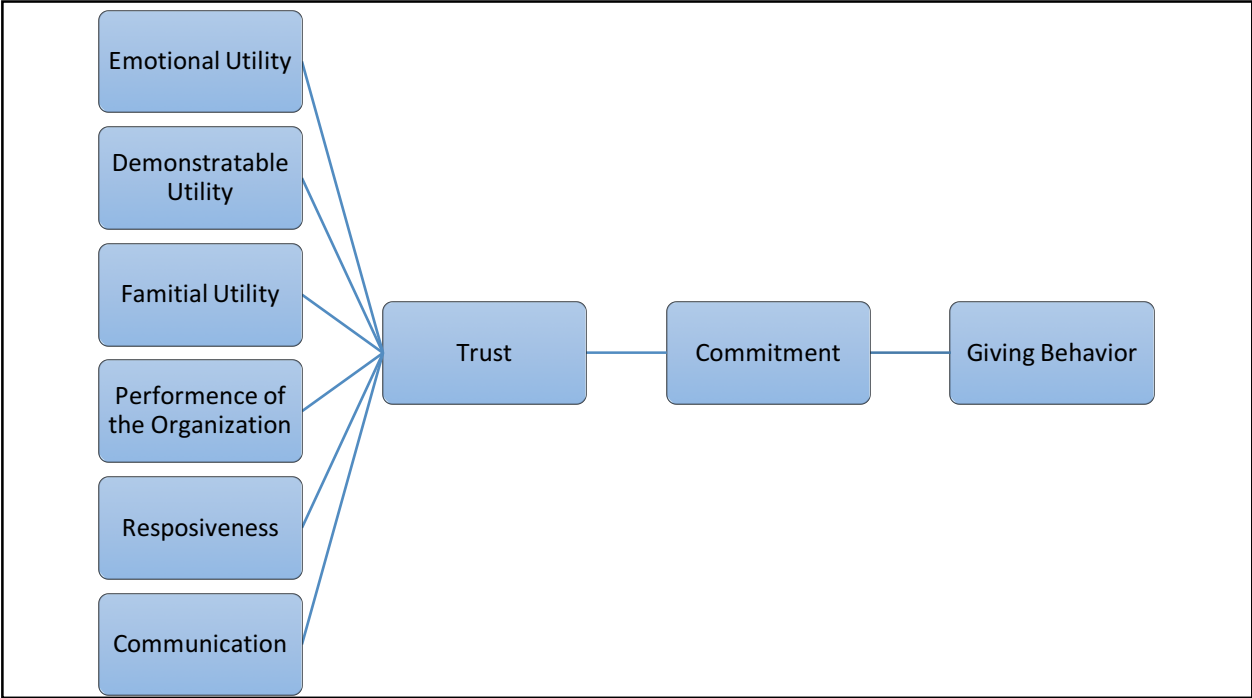
Figure A2. Psychological Model 2
(Sargeant, Ford, & West, 2005)
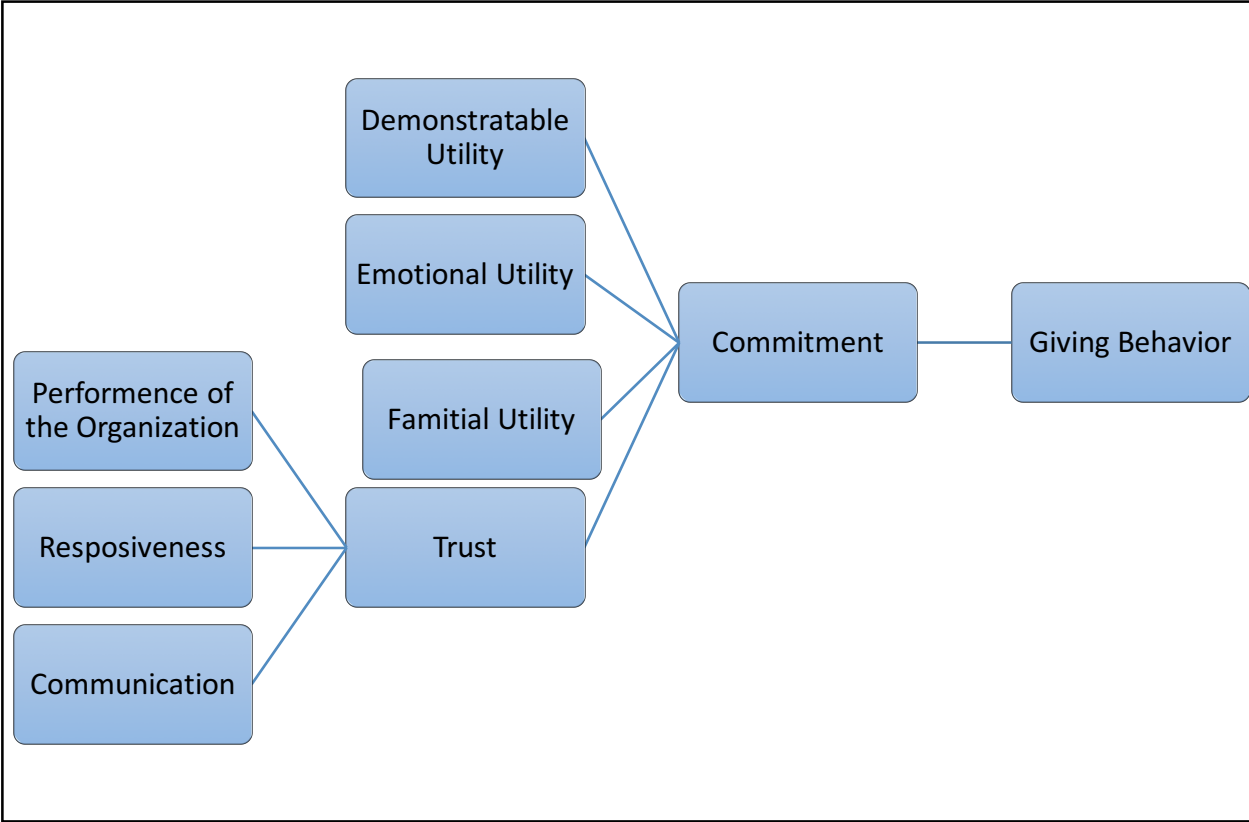
Figure A3. Psychological Model 3
(Sargeant, Ford, & West, 2005)
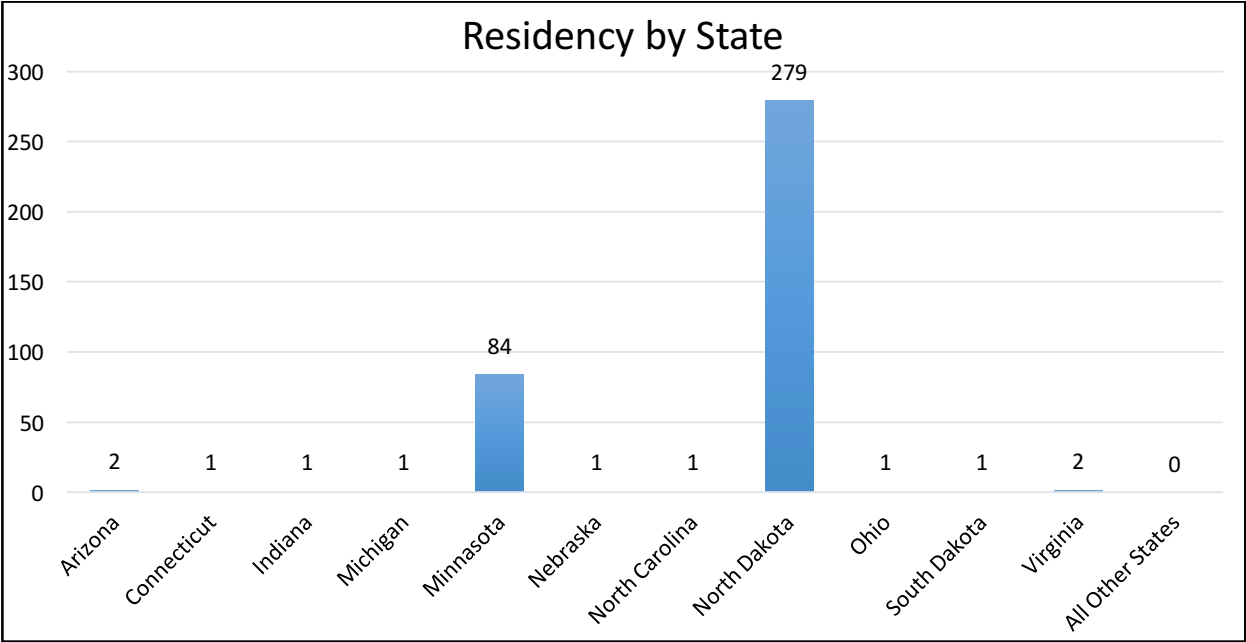
Figure A4. Residency by State
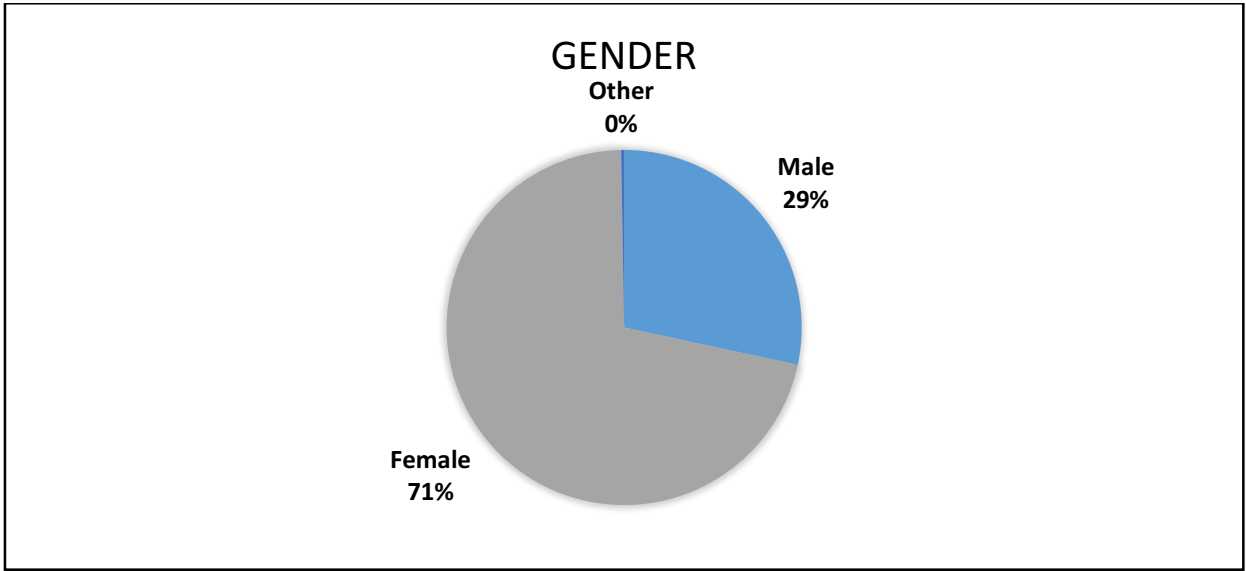


Figure A5. Gender of Donors
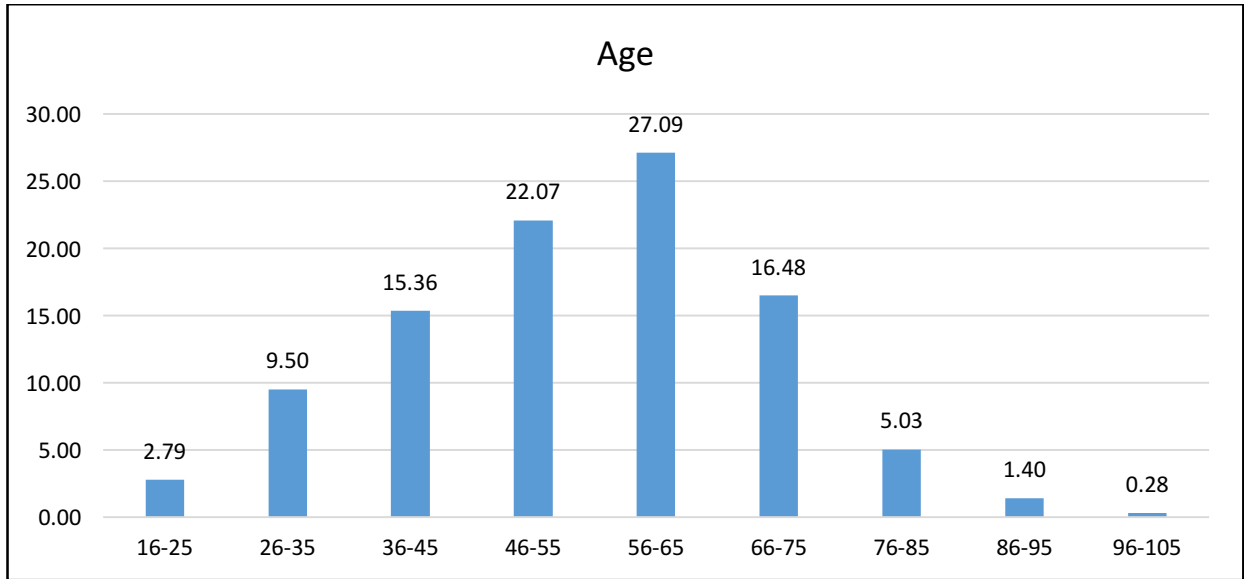
Figure A6. Age of Donors
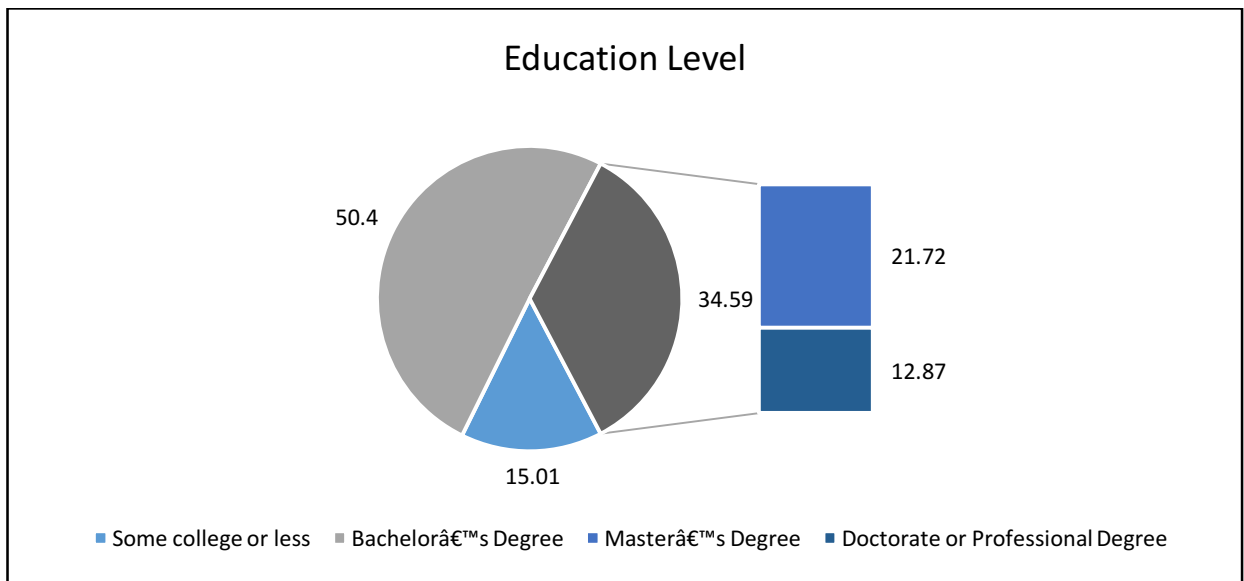


Figure A7. Education Level
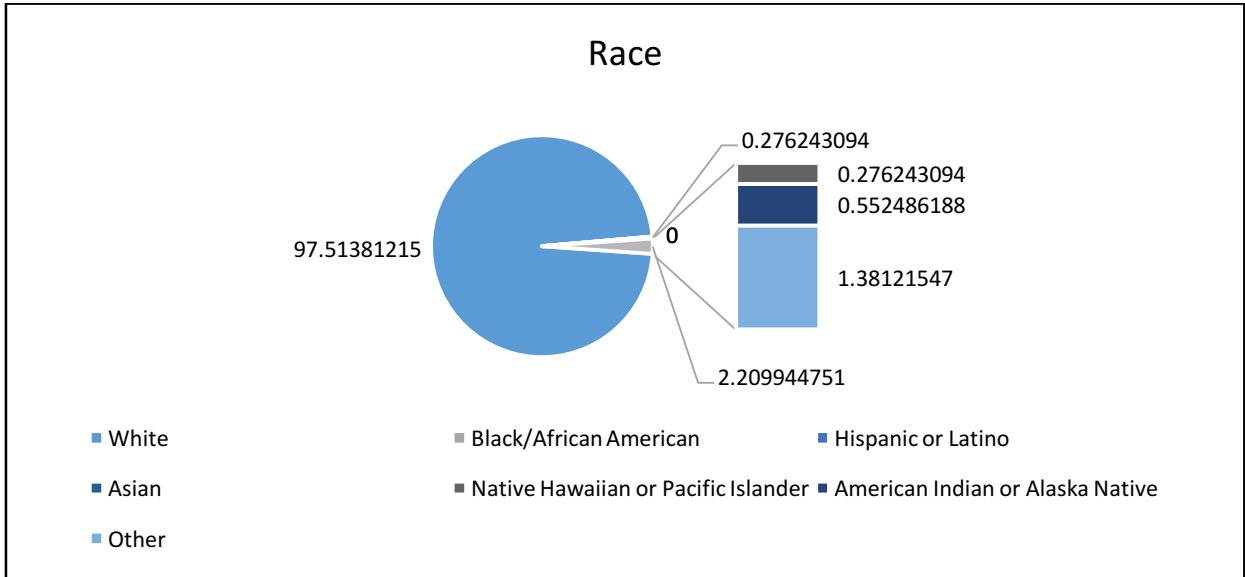
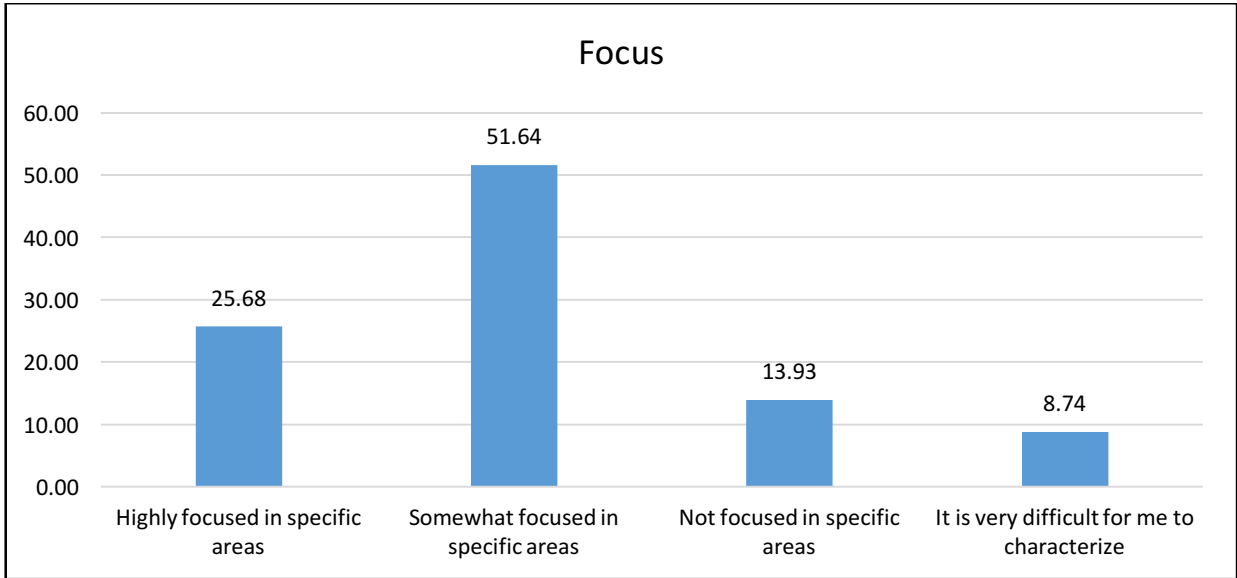Figure A8. Classification by Race
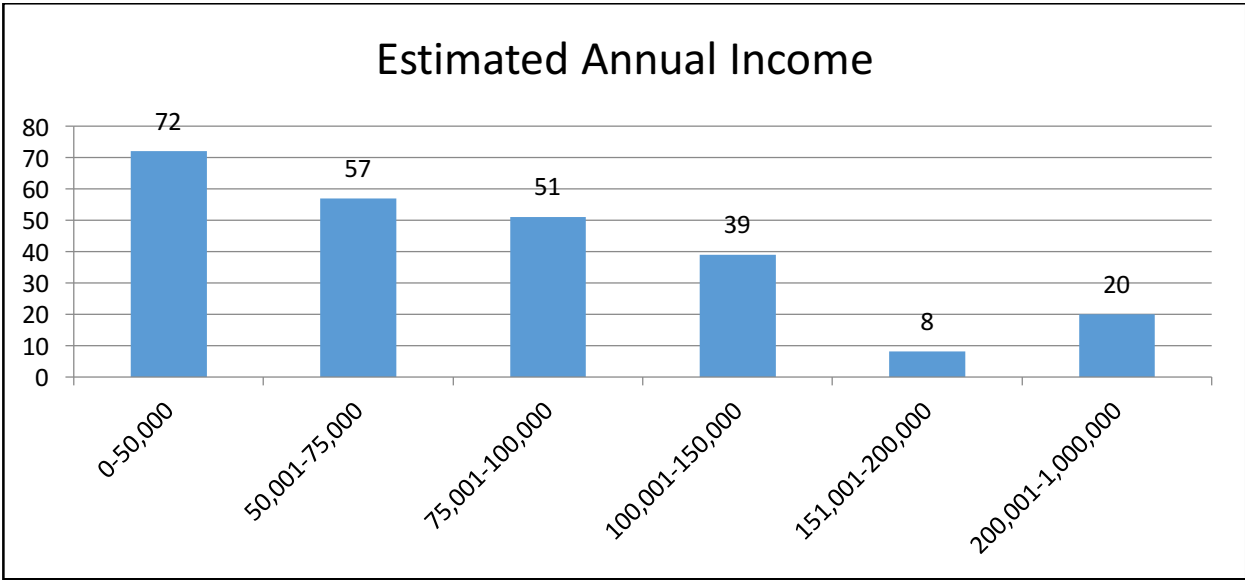


Figure A9. Income
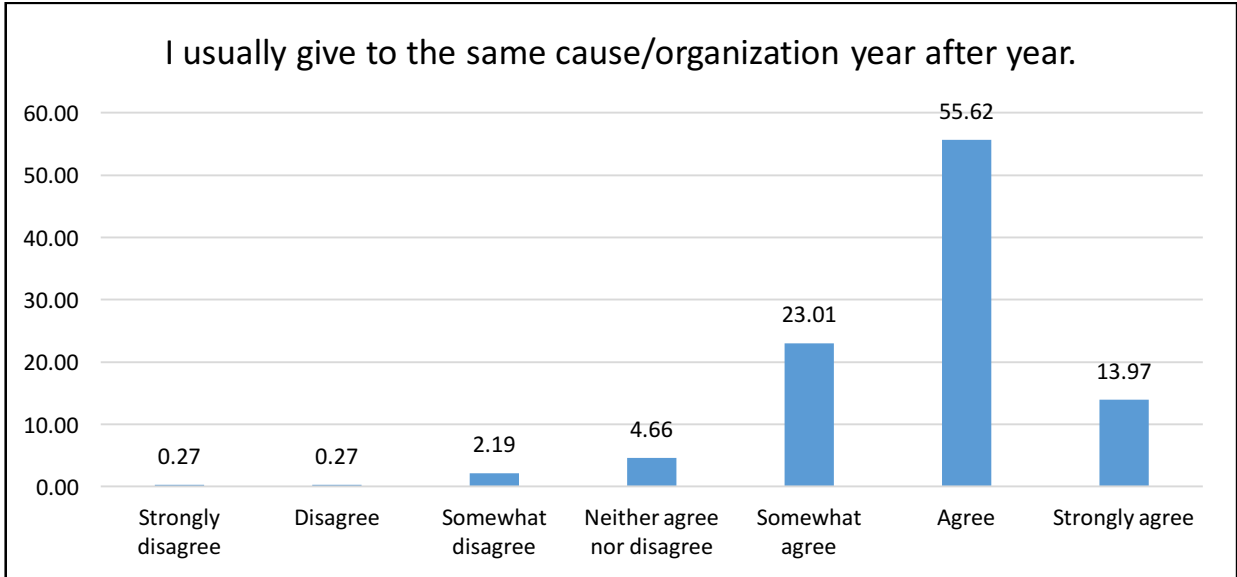
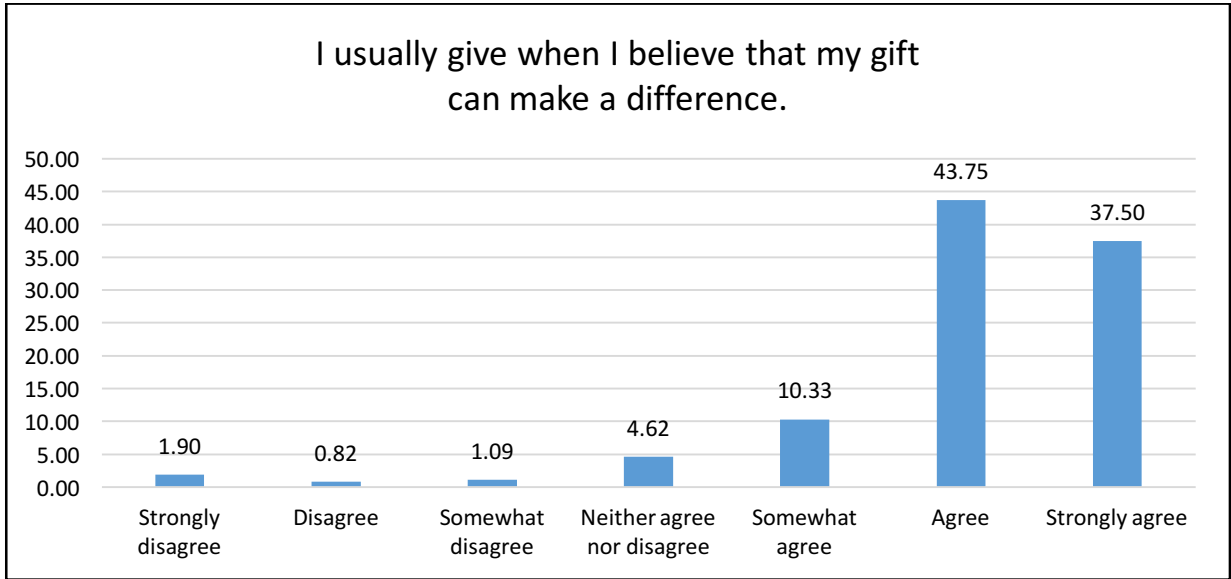Figure A10. Interest to Focus on Specific Areas



Figure A11. Loyalty Towards a Charity
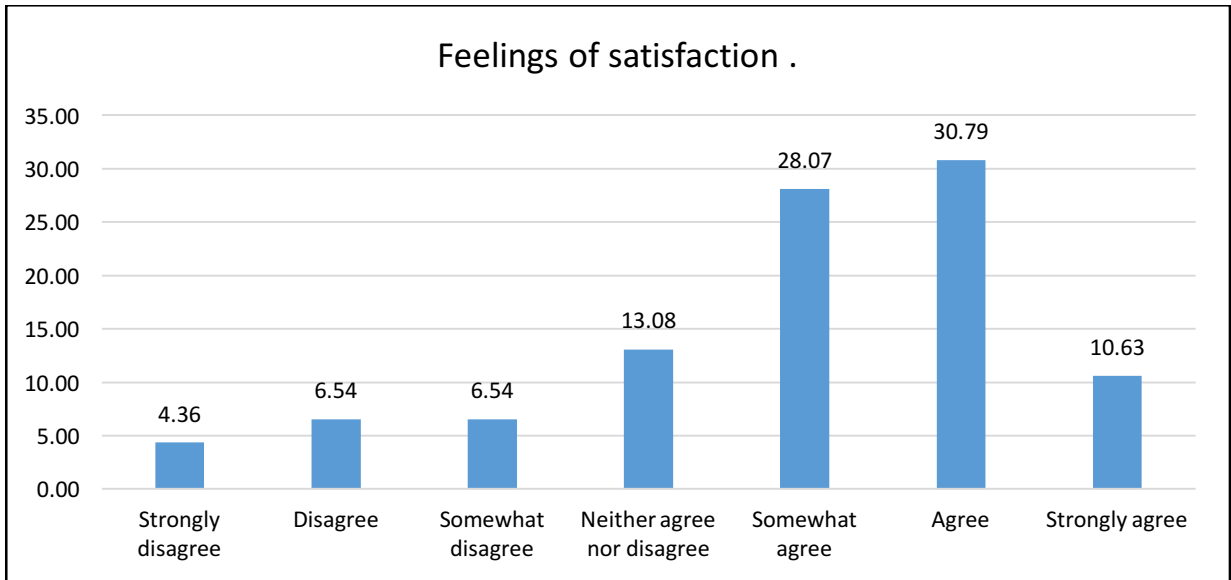
Figure A12. Difference through Donation



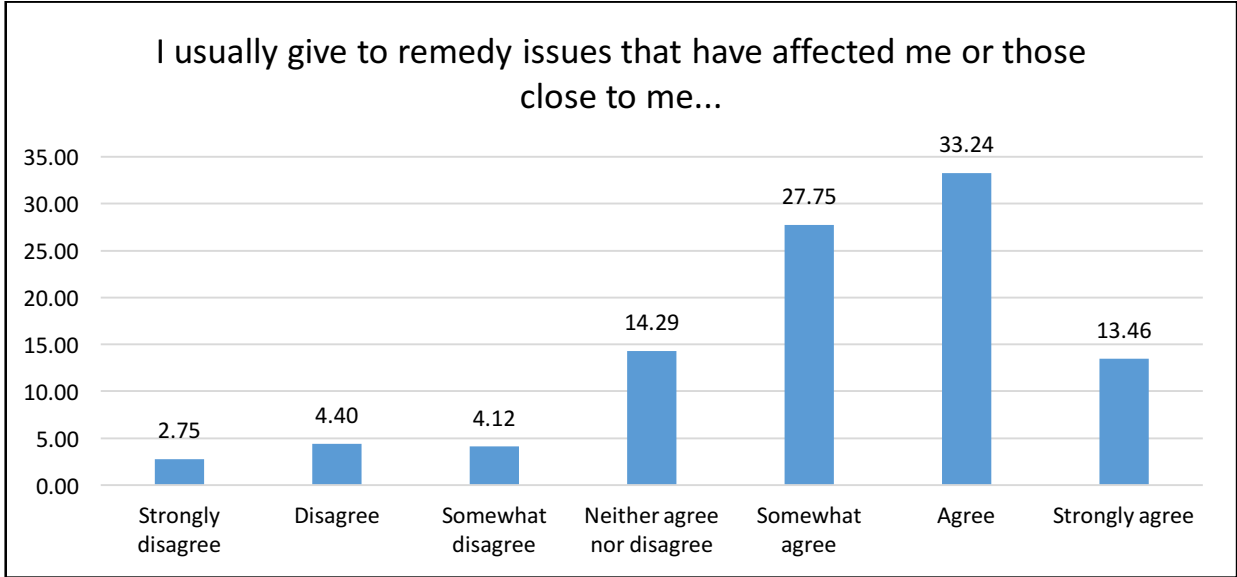Figure A13. Feeling of Satisfaction
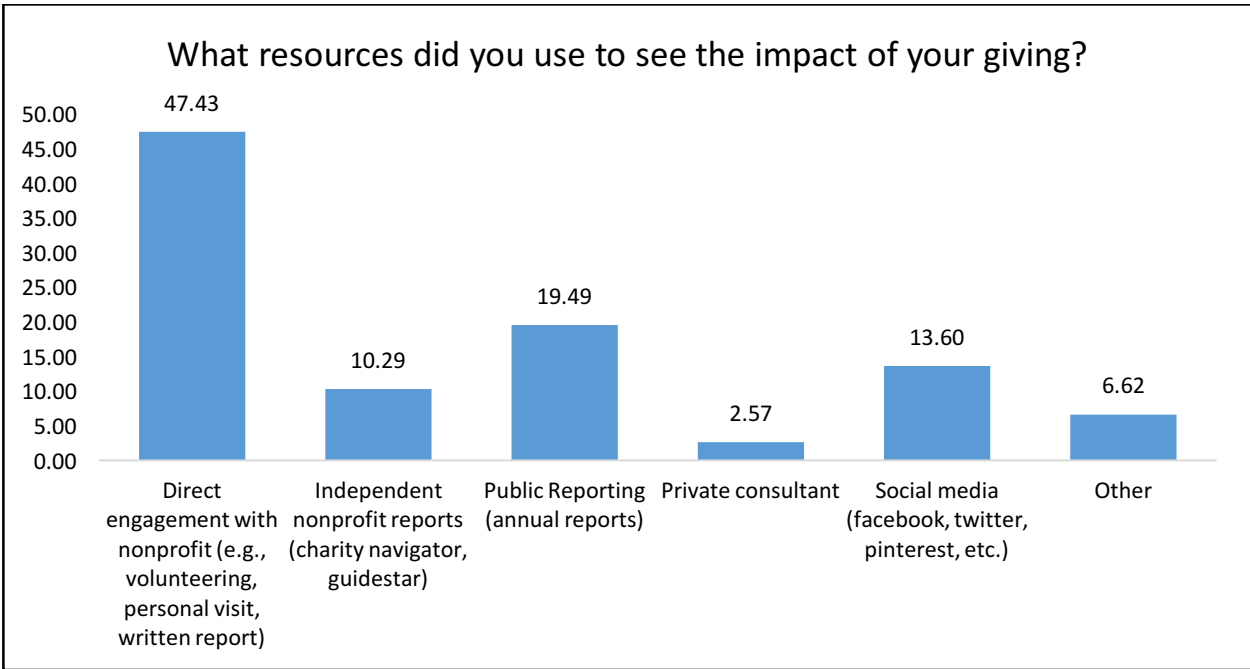
Figure A14. Past Experience



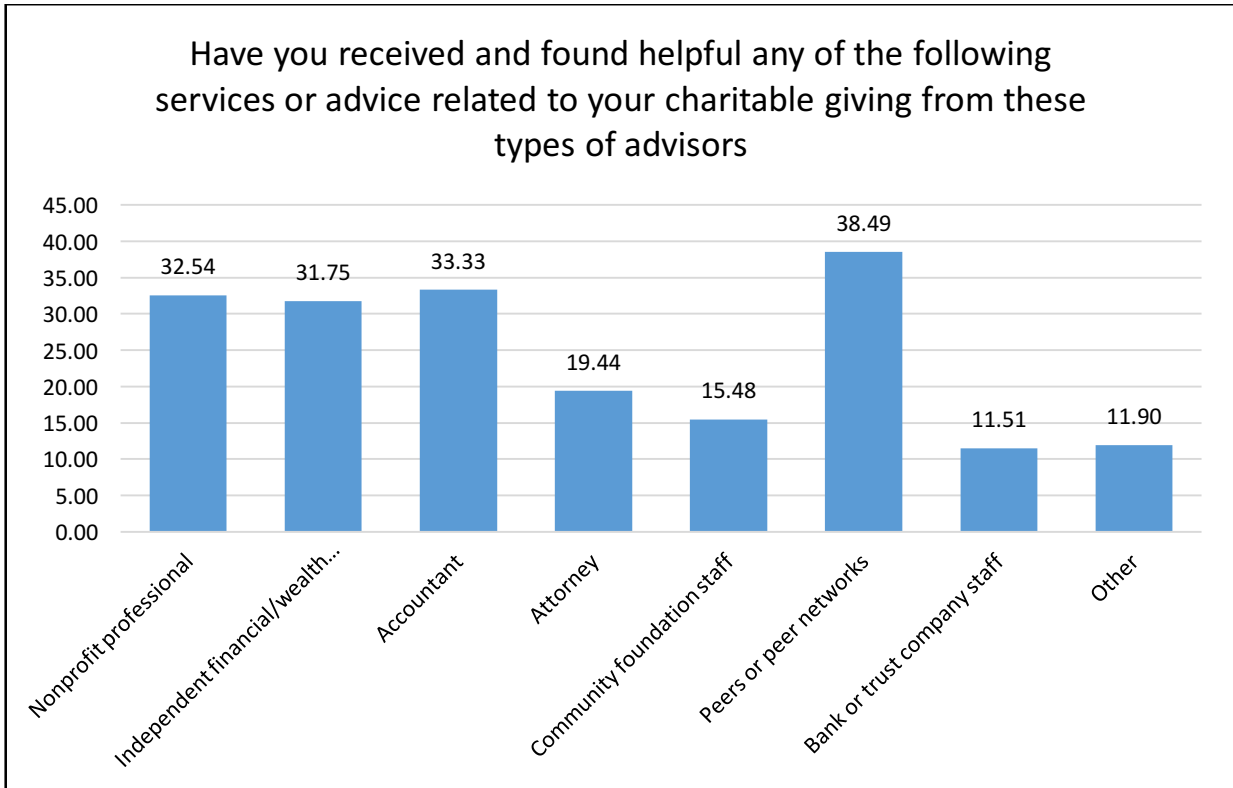Figure A15. Resources on Deciding a Charity

Figure A16. Professional Advice

Table A3. Areas of Focus

| Area | Extremely important | Very important | Moderately important | Slightly important | Not at all important |
|---|---|---|---|---|---|
| Education | 40.54 | 29.46 | 20.27 | 7.57 | 2.16 |
| Poverty Reduction | 32.79 | 36.31 | 21.14 | 7.59 | 2.17 |
| Health Care | 29.73 | 33.51 | 25.14 | 6.76 | 4.86 |
| Health and Wellness | 29.35 | 35.60 | 23.37 | 9.24 | 2.45 |
| Environment | 16.85 | 26.36 | 31.79 | 17.12 | 7.88 |
| Arts and Culture | 12.50 | 21.47 | 32.07 | 21.47 | 12.50 |
| The Economy/Federal Deficit | 4.95 | 16.21 | 22.80 | 32.14 | 23.90 |
| Disaster Relief | 17.07 | 37.94 | 26.83 | 13.28 | 4.88 |
| Human Rights | 24.73 | 33.70 | 21.47 | 14.67 | 5.43 |
| Community Development | 12.53 | 38.15 | 28.61 | 16.35 | 4.36 |
| Tax Policy | 4.93 | 11.51 | 23.29 | 28.49 | 31.78 |
| Women's Rights | 19.89 | 28.34 | 23.71 | 15.80 | 12.26 |
| Veteran's Affairs | 14.44 | 32.43 | 28.61 | 15.26 | 9.26 |
| National Security | 10.66 | 19.13 | 26.50 | 23.50 | 20.22 |
| International Issues | 6.27 | 16.89 | 30.79 | 26.43 | 19.62 |
| Improving Infrastructure | 5.99 | 21.53 | 27.79 | 26.98 | 17.71 |
| Crime and Criminal Justice | 10.93 | 24.59 | 28.96 | 19.95 | 15.57 |
| Race/Cultural Relations | 16.99 | 25.75 | 27.67 | 16.44 | 13.15 |
| Youth/Children | 42.16 | 34.59 | 16.49 | 4.32 | 2.43 |
| Animal Welfare | 10.90 | 18.53 | 25.34 | 25.07 | 20.16 |
| Religious | 26.95 | 26.15 | 20.75 | 11.05 | 15.09 |