Toward Increasing Fund-Raising Efficiency: An Exploratory Study of Use of The Referral Method by a Non-Profit Organization

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Abstract

Obtaining sales prospects from customer referrals is a frequently cited means of improving selling-time efficiency. This paper examines the utility to a non-profit organization of similarly using referrals in fund-raising efforts. Referrals were found to be more likely to donate than previous non-donors, and were just as likely to contribute as former donors. However, contrary to generally accepted "wisdom," current non-donors and donors were equivalently likely to provide referrals. Further-more, those from either source were found to be equally productive leads. Theoretical explanations are discussed.

Introduction

Background

Salespeople frequently elicit referrals from previous customers to generate prospective clients, a technique which is highly recommended by numerous sales management and personal selling texts (cf., Anderson, Hair and Bush 1988; Futrell 1988; Hersey 1988; Kurtz, Dodge and Klomppmaker 1988; Russell, Beach and Buskirk 1988; Still, Cundiff and Govoni 1988). Some variations of this basic sales technique include having the current customer either introduce the salesperson to a potential client, having him/her endorse the firm’s offering in writing, or simply allowing a company representative to use the referring party’s name as a means of introduction. The often stated rationale behind the method suggests that a prospect identified by any of the former procedures will have at least one of two reasons for an increased likelihood of purchase.

First, referred individuals are anticipated to share similar unfulfilled needs and the ability to purchase with referring customers. Therefore, the referral technique of generating sales leads should act as an effective screening device. To the extent that the procedure is successful, referral sales candidates should be superior to randomly contacted individuals, due to the "pre-screening" process (Brock 1983; Smarg 1987; Smith 1986).

Second, referred individuals are also expected to exhibit more positive initial attitudes toward the object of behavioral compliance. This favorable predisposition results from the manipulation of information available to prospects and its valence (Tybout, Sternthul and Calder 1983; Fern, Monroe and Avila 1986). Specifically, the favorable information that one was referred by an acquaintance induces the referred customer to believe that the original client was favorably impressed with the company’s offering(s). Assuming one advises the prospective client of the source of his/her name to the company, this information is both favorable and readily available at the time of the sales presentation. As a result, prospects are induced to evaluate the product relatively more favorably than in the absence of a referral. Thus, the second reason why referrals appear to be more likely prospects corresponds to a greater initial willingness to purchase.

The potential benefits of an initially favorable attitude by the referred party, which results from an inference concerning the referring individual’s likely product dispositions, suggests a means by which the efficiency of the referral method can be enhanced. Note that referrals are ordinarily recommended to be obtained only
from current purchasing customers (cf., Girard and Brown 1979). That is, most salespeople are trained to restrict name-solicitation requests to individuals who have previously or are currently purchasing from their company. Recent purchasers are presumed to be likely to provide useful referrals — they "have a vested interest in praising your product because they want to alleviate their own anxiety by justifying their purchase" (Anderson, Hair and Bush 1988, p. 584). Other individuals, who have turned down a purchase request(s), are presumed to be unwilling and/or unable to provide useful referrals.

Conversely, we contend that there is absolutely no a priori reason to believe either: 1) that referrals can only be obtained from "purchasing customers," or 2) that referrals from other sources are less effective. To the contrary, the theory of reciprocal concessions would suggest that individuals who refuse to comply with a product purchase request may very well comply subsequently to a referral solicitation request (Cialdini et al. 1975). That is, when an initially large request (product purchase) has been refused, and the sales representative makes a concessionary request of a referral of a potentially interested acquaintance, the contact may feel somewhat obligated to honor the modified request. Due to the perception that the sales representative has tempered the original request, the likelihood of compliance to the referral request may actually be facilitated relative to instances in which a referral is solicited in the absence of a product purchase request. Presumably, this facilitation would be expected to occur most frequently when one declines to purchase the product for situational reasons (e.g., shortage of funds), rather than from negative product attitudes.

Furthermore, the information available to a referred client as to the occurrence and source of his/her referral, as well as its valence, should be identical regardless of how the referral was obtained. That is, whether or not the original prospect had purchased the product would probably be unknown to the referral client. Either way one might likely infer that the acquaintance who provided his/her name had a favorable product attitude. Thus, by asking for referrals from non-purchasing prospects, a greater number of potentially valuable leads should be gained.

Applicability to Fund-Raising

Several recent studies advocate the increased usage of referrals as an effective promotional tool. In particular, authors in service industries such as banking, insurance, accounting, and medical practice strongly recommend greater acceptance of the referral technique (Aguila 1984; Bokina 1988; Brock 1983; Farrell 1983; Smarg 1987; Smith 1986; Wheiler 1987). Furthermore, referrals are gained at little or no cost. If they prove effective in locating highly productive leads, then their use appears to be particularly suitable for non-profit organizations in seeking charitable donations. Non-profit organizations often have severely restricted resources available for promotional programs, and any no-cost or low cost procedure which could enhance fund-raising efficiency is particularly important.

The purposes of this exploratory study are two-fold. First, it is important to determine empirically whether referred individuals are demonstrably superior to prospects identified through other means, in terms of their likelihood to contribute to the organization. Although this outcome appears to be ubiquitously accepted, its empirical testing has not been previously reported in the literature.

Second, a possible procedure for increasing efficiency of the referral method will be tested, as was identified in the previous discussion. To the extent that referral solicitation is accepted as a valuable and frequently used procedure, understanding which implementation procedures are the relatively more efficient appears to be an important issue. If referrals from non-donors can be obtained and are productive, they clearly should be sought.

Hypotheses

The first hypothesis to be tested will deal with the efficacy of the referral method in generating productive leads for the organization which uses it. Specifically, it is predicted that:

H1: Referral leads (previous non-donors) will be more likely to provide a current donation than will similar non-donors who are not referred.

Second, it is important to determine whether referral solicitation should be confined to only current donors ("purchasers"), as is generally done, or if those who are unable and/or unwilling to donate may prove to be potentially valuable sources of leads, as well. Specifically, the authors predict that:

H2: No significant difference in the probability of obtaining a referral is expected between current donors and non-donors.

Although there may be differing influences which induce a donating and a non-donating current contact to respond affirmatively to a name-solicitation request, they
may prove equally willing to do so. For a current donor, a favorable attitude may act as the primary behavioral stimulus. He/she may simply wish to share a valuable (subjectively determined) opportunity with a friend. With a currently contacted non-donor, assuming no drastically unfavorable attitudes toward the organization, it may be the modification in request magnitude by the soliciting representative which stimulates compliance to the name-provisional request. Particularly in the case where circumstances preclude a donation (e.g., inadequate financial resources; competing financial obligations), rather than a negative attitude, the contact may feel compelled to render the requested name as a "reciprocated concession" to that made by the organization’s representative. Thus, there appears to be no a priori rationale for predicting that compliance to the name-solicitation request will be greater for one group than for the other.

The third hypothesis which will be tested relates to the effects of the knowledge of the referral on the individual whose name is given by the original contact. We predict that:

H3: The likelihood of generating a donation from a referral prospect is expected to be equivalent between those who were referred by either currently donating or non-donating contacts.

Since the referred individual is likely to be ignorant as to whether the acquaintance actually made a contribution, he/she must infer the reason(s) for the name provision. Assuming the identified referring person is someone with whom he/she enjoys a favorable relationship, the logical conclusion by the referral is that the "friend" was impressed with the organization and its mission and wished to share a desirable opportunity. Thus, not only is higher source credibility attached to the implicit recommendation of the acquaintance than to that given by the fund raiser (cf., Augmentation Principle, Kelley 1971; Dholakia and Sternthal 1977), but the consensual information (Kelley 1971; Smith and Hunt 1978) provided by the implied favorable evaluation of the organization’s request by the acquaintance predisposes the referred person to evaluate it favorably, as well.

Methodology

Sixty-seven participants were randomly selected for the first stage of the study from a list compiled by a charitable foundation (University Alumni Foundation). Thirty-four individuals had provided donations in the past while the remaining thirty-three, although previously contacted, had never made a charitable contribution to the Institution. All respondents were graduates of the University and were contacted in conjunction with the annual fund-raising campaign. Subjects were first asked to provide a monetary contribution to the school, and were then requested to provide a referral of a former classmate who they believed might be interested in contributing. They were informed as to the purpose of the latter request: to update inadequate records and re-establish ties with alumni interested in supporting the University.

An additional twenty-seven referral subjects were obtained by this method. Name, current address and phone number was provided by the source of each referral. All referred individuals were initially informed as to the occurrence and source of the referral, and were subsequently asked to provide a monetary contribution to the school. A check against the Foundation list verified that none of the respondents obtained through referrals were duplicated from the original sampling frame. In all, 94 subjects (34 donors, 33 non-donors, and 27 referrals) participated in the study.

Respondents were classified as former donors, non-donors, or referrals. Nominal variables were recorded for each respondent concerning: 1) current willingness to provide a gift, and 2) whether a referral was provided when a name solicitation was made. Thus, a regrouping of individuals from the original Foundation list was accomplished to indicate current donors and non-donors. This recategorization was necessary to test Hypotheses 2 and 3.

Results

Hypothesis 1

As preliminary tests of the utility of referrals, two Chi-square tests were conducted to determine whether significant difference existed in the probability of obtaining a donation between referrals and individuals of other categorizations. Table 1 presents the current donation status of individuals contacted in the campaign, and clearly illustrates potential promise behind implementation of the technique. A comparison between referrals and non-donor alums supported the notion of utility of the referral technique. That is, referred prospects were found to provide a donation more often than former University alumni non-donors who were contacted [Chi-square (1)=7.7, p<.05].

The second Chi-square test, between referrals and former donors, revealed that the two groups were equally likely to contribute during the current fund-raising campaign [Chi-square (1)=0.02, not significant]. In this particular situation, a referral was an equivalently
good indicator of willingness to contribute as was a prior donation history with the Foundation. Thus, the data support Hypothesis 1 indicating that, except for former donors, referred prospects are often more susceptible to offers or requests by the organization than are individuals identified through various other means (previous non-donors).

Hypothesis 2

As a test of Hypothesis 2, a Chi-square test was conducted to examine the probability of obtaining referrals from current donors and non-donors in the fund-raising campaign. A regrouping of respondents was necessary to examine the feasibility of obtaining referrals from individuals who fail to make a donation to the organization, but are subsequently asked to provide the name of an acquaintance. No significant difference in the likelihood of obtaining a referral between donors and non-donors would support Hypothesis 2. Such a result would indicate that a potentially valuable source of referrals was being lost by limiting name solicitations to only "customers" -- a restriction which has often been advocated in personal selling situations, from which the referral procedure evolved. Table 2 indicates the null hypothesis cannot be rejected (Chi-square (1)=0.21, not significant). Forty-two percent of the non-donors provided a referral, while thirty-six percent of the donors gave a prospect's name, address, and telephone number. Apparently, the efficiency of the referral method can be increased by also obtaining leads from those individuals who have currently failed to comply with a donation request.

Hypothesis 3

The absence or provision of a contribution by those referred by either current donors or non-donors was also analyzed in order to test Hypothesis 3. If, as predicted, there was no difference in donation likelihood between the two groups, it would indicate that the effect of knowledge that one's name had been given as a referral was independent of the actual behavioral response (e.g., donation, no donation) of the referring individual. It seems reasonable that knowledge of the name provision would induce the referred person to infer a favorable attitude and/or contribution to the organization by his/her acquaintance, regardless of whether or not a donation had actually been made.

A final Chi-square test revealed that donation occurrences were equivalent between those referral prospects whose names had been provided by either current donating or non-donating alumni contacts (Chi-square (1)=0.41, not significant). This result is found in Table 3. Thus, not only were referrals equivalently forthcoming from the non-donating alums as from their donating counterparts, but subsequent contributions from their respective leads proved equally productive to the Foundation in terms of percentages of contributors. The latter result was predicted and supports Hypothesis 3.

Conclusions and Implications

The current study tested the efficacy of using a sales prospecting referral method as a means of generating productive leads in fund-raising efforts. It was predicted and found that other than former donors to the Foundation, referrals were the most productive prospects in terms of likelihood of donating in the current fund-raising campaign. Although this result is as predicted and as has been frequently mentioned in numerous business periodicals, it appears to be the first time in which it has been empirically tested and reported in the "academic" literature.

The results are rather startling when one considers the apparent strength of the effect in this fund-raising situation. That is, in comparing the donation likelihood of referral prospects to previous non-donors, the respective sample sizes were rather small (n=27 and n=33, respectively). Obviously, the use of small samples favors a finding of no difference, even when a true difference exists. Despite the relatively small subsamples, the results were significant and as predicted, indicating how truly superior referrals can be to leads obtained by other means.

Furthermore, these findings are particularly important when one realizes that use of the advocated procedure came at minimal additional cost to the organization. The procedure was and often can be implemented at the time of communications with ordinarily contacted individuals. When one considers the potentially enormous costs associated with other endeavors to increase fund-raising efficiency (e.g., advertising, "personal selling" by paid organizational employees), the advocated procedure appears to be meritorious, indeed, for nonprofit organizations attempting to obtain charitable contributions.

Perhaps two other results of this exploratory study were more surprising to marketing practitioners. That is, one generally assumes that only "purchasing" customers (donors) will provide useful referrals to the namesoliciting organization. That presumption was not empirically supported. Current donors and non-donors provided referrals with equal frequency in this investigation. Furthermore, leads provided by either source were equally productive in terms of the referred individuals'
### Table 1.
**Frequency of Donation by Initial Group Affiliation***

<table>
<thead>
<tr>
<th>Initial Grouping</th>
<th>Referral Contacts</th>
<th>Former Non-donors</th>
<th>Former Donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>13</td>
<td>28</td>
<td>17</td>
</tr>
<tr>
<td>Donation</td>
<td>14</td>
<td>5</td>
<td>17</td>
</tr>
</tbody>
</table>

*Referral contacts were significantly more likely to make a current donation than were former non-donors (p<.05). No difference in donation likelihood was found between referrals and former donors.

### Table 2.
**Referral Provision by Donor Category***

<table>
<thead>
<tr>
<th>Subsequent Grouping</th>
<th>Current Donors</th>
<th>Current Non-donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refusal</td>
<td>14</td>
<td>26</td>
</tr>
<tr>
<td>Provision</td>
<td>8</td>
<td>19</td>
</tr>
</tbody>
</table>

*Current donors and non-donors were equivalently likely to provide a referral in response to a name-solicitation request.

### Table 3.
**Frequency of Donation from Those Referred by Current Donors Versus Non-donors***

<table>
<thead>
<tr>
<th>Source of Referral</th>
<th>Current Donors</th>
<th>Current Non-donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Donation</td>
<td>4</td>
<td>10</td>
</tr>
</tbody>
</table>

*Those referred by current donors and non-donors were equivalently likely to make a contribution to the Foundation in the current campaign.
likelihood of making a donation to the organization. Thus, it appears unnecessarily restrictive to confine name-solicitation requests to only "customers" of the organization.

Based on the results obtained, an "endless chain" process concerning referrals appears potentially useful. That is, referred individuals could not only be contacted in the period in which they are identified, but their names could be added to a list of potential re-contacts in subsequent fund-raising attempts. One could calculate the expected value of the procedure in its first period of use by estimating expected revenues minus variable costs:

\[
E(V) = (N \times \text{Ref \%} \times \text{Donation \%} \times \text{Donation Amount}) - \text{VC}
\]

where

\[
N = \text{population of contacts on list},
\text{Ref \%} = \% \text{of contacts who provide a referral},
\text{Donation \%} = \% \text{of referrals who donate},
\text{Donation Amount} = \text{mean donation by referrals},
\text{VC} = \text{variable costs}.
\]

In subsequent periods, assuming that the names of previously identified referrals were added to the master list (classified as donors or non-donors) and "referrals" were recontacted, one would need to add on an additional component of expected value to represent subsequent donations. Thus, to more accurately assess the value of implementing the suggested referral procedure, an annuity of benefits minus costs would be relevant.

It should be noted that prior to the initial period of using referrals, one would need to subjectively determine figures for several included terms. In subsequent periods, one could build confidence intervals around previously derived parameters in order to estimate overall expected value.

Limitations and Suggestions for Future Research

Several limitations of this study must be recognized. First, the Foundation considered actual donation amounts received from patrons in various of the included groups (donors, non-donors, and referrals) to be proprietary information. Thus, only differing donation likelihoods could be tested and presented. Donation amounts would not only provide for use of more powerful statistical tests, but results of such tests would appear to be the more managerially significant. It is clearly advisable that, for future research involving the referral method, dollar amounts of generated donations should be employed as dependent measures in the analyses. Second, a longitudinal design is clearly recommended in subsequent studies to determine if advantages of the advocated technique endure, or if they dissipate over time. It is conceivable that those prospects who are referred are only favorably predisposed to the organization's fund-raising attempts at the time of the original contact. If such were found to be true, it would in no way obliterate the usefulness of the procedure, but it would somewhat limit its obvious advantages.

Finally, there appears to be another potentially useful direction for future research. It has been suggested by Reingen and Kernan (1986) that the strength of an interpersonal relationship between individuals may moderate the magnitude of influence that the one has on the behavior of the other. Thus, in future studies of the referral procedure, it may be advisable to attempt to determine the strength of the tie between the referring contact and the individual whose name he/she provides. If interpersonal relationship strength is found to moderate referral efficiency, organizations may be advised to seek similar information before deciding which of the provided leads to pursue.

The authors wish to dedicate this article to the late James Miner, who assisted them in the data-collection phase of the project. Jim recently died of a brain aneurism at the age of 22.

Endnotes

1. There may or may not be variable costs associated with use of the referral procedure. That is, if the organization maintains WATS telephone lines for the donation solicitation calls, uses fund-raising volunteers, and obtains donations on the spot via charging procedures to credit cards, no variable costs would be incurred. However, if there are additional telephone, wage, or mailing expenses associated with use of the technique, these costs would have to be subtracted from resultant revenues.

References


