The Charity Competence Curse: Conflation of Needs Explains Why Donors Fail to Reward Effective Management

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Zoom Link: 851 263 81174 (pw: 808831), Friday, February 11, 9:30-10:30am Eastern Time

Pre-registrations for all experimental studies are available at: https://osf.io/vt63x/?view_only=53446cfada274d44a1180fb96d61ea69
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Summary

Although the effective altruism movement recommends donating to charities that maximize impact per dollar, people often focus on donating to charities that seem to need the most. This research documents a bias whereby donors **fail to reward signals of managerial competence in charitable organizations** and thus, ironically, provide more support to charities less effective at helping.

Six studies, including field data, provide robust evidence for this deleterious effect where donors penalize best managerial practices because they **perceive competent charities as needing less help and ultimately conflate the charity's need for help with its end-beneficiaries**. This bias is mitigated under conditions that encourage donors to use consequential thinking: (1) when approaching the decision as if investing, (2) when prompt to reflect on the impact of their donation, (3) when made to realize their limited understanding of charity management, and (4) among those low on trait empathy.

Methodology

Study 1: field data

- Examines our hypothesis using real-world data—**CharityNavigator.org**
- *Working Capital Ratio* (WCR) as a proxy measure for competence -> charities' ability to **manage financial resources and obligations**
- DV: total donations received by a charity during one fiscal year of operation

Study 3: process

- Choose to donate between charity A (help town X) & charity B (help town Y)
- Counter-balanced order: charity A = low-competence (entry-level worker) vs. charity A = high-competence (professionals)
- Mediators: perceived *need of the charity* & perceived *need of their end-beneficiaries*

Study 2A & 2B: main effect

- Compare donation and investment decisions
- Choose to donate (vs. invest) between a low- and a high-competence organization

Entry-level workers VS Professionals
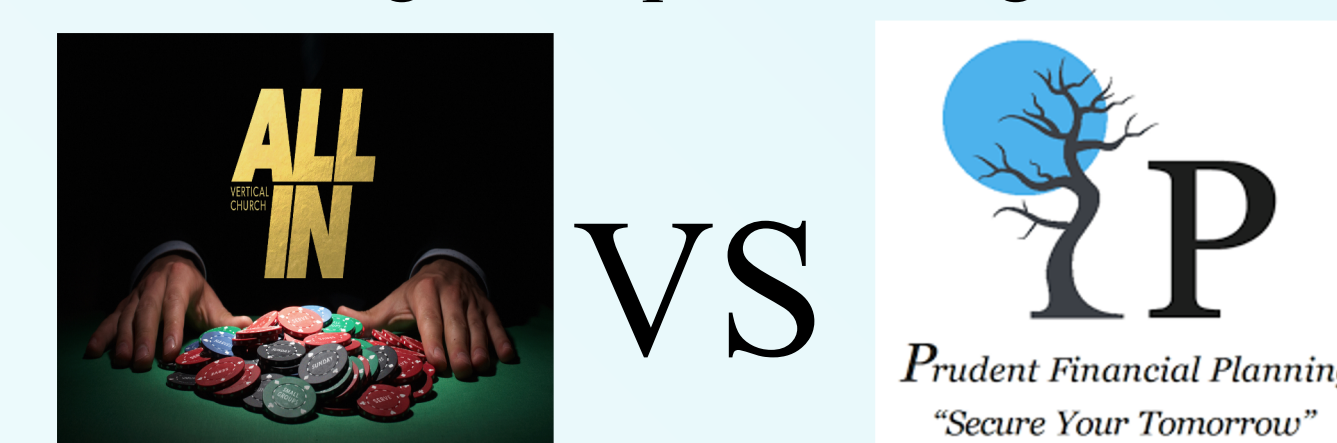
4.5 star: spent all its revenues to the beneficiaries VS 5 star: reserved some money for emergency use

2A: manipulate competence by the level of professionalism of the **personnel**   2B: manipulate competence by prudent **financial management**

Study 4: reduce bias through inducing impact focus

- 2 (donation vs. investment) × 2 (impact focus: before vs. after choice)
- *Impact focus*: which charity/startup will "bring a greater return/make a greater impact/benefit people the most"

Study 5: reduce bias through decreasing explanatory depth

- Illusion of explanatory depth: overestimating understanding of how things work.
- Realizing limited understanding of charities should reduce reliance on intuition
- *Explanatory depth* (control vs. reduced)
- Exploratory: trait empathy

Study 1 Results: effect of working capital ratio on donation amount

	Dependent variable:		
	Contributions		
	(1)	(2)	(3)
Working Capital Ratio	-382,621.100 (248,268.000)	-2,583,032.000*** (224,597.600)	-873,043,900*** (183,209.200)
Total Net Assets		0.153*** (0.003)	0.043*** (0.003)
Fundraising Expenses			7.127*** (0.104)
Constant	13,657,677.000*** (894,136.500)	13,372,212.000*** (792,722.400)	6,105,967.000*** (649,315.500)
Observations	8,902	8,902	8,902
R^2	0.002	0.216	0.488
Adjusted R^2	0.001	0.215	0.487
Residual Std. Error	60,712,223.000 (df=8893)	53,824,724.000 (df=8892)	43,499,235.000 (df=8891)
F Statistic	2.123** (df=8; 8893)	271.572*** (df=9; 8892)	846.566*** (df=10; 8891)
Note:	$p<0.1$; **$p<0.05$; ***$p<0.01$		

- The higher the working capital ratio (i.e., the more competent a charity is), the lower donation the charity receives, even after controlling for total net assets and fundraising expenses.
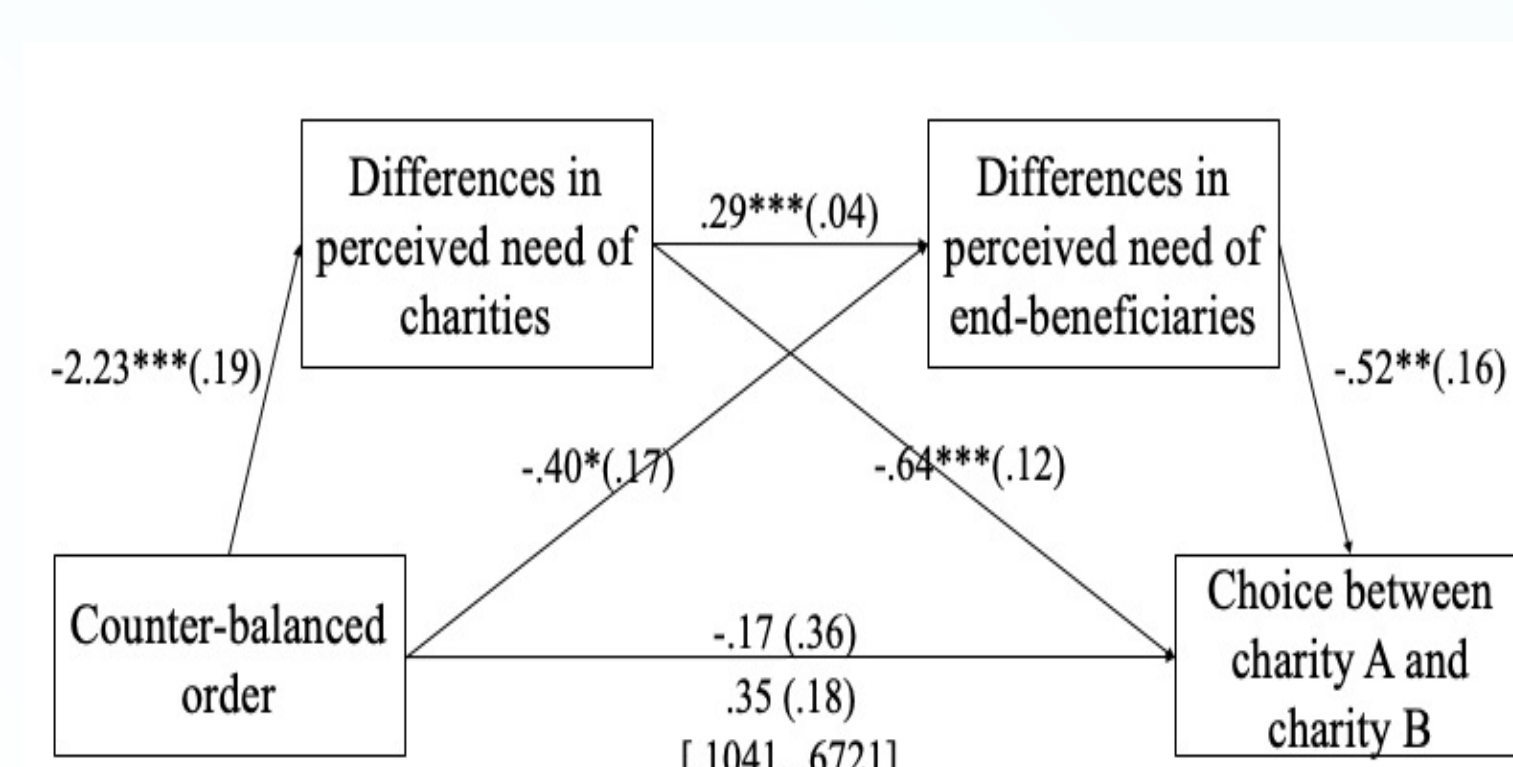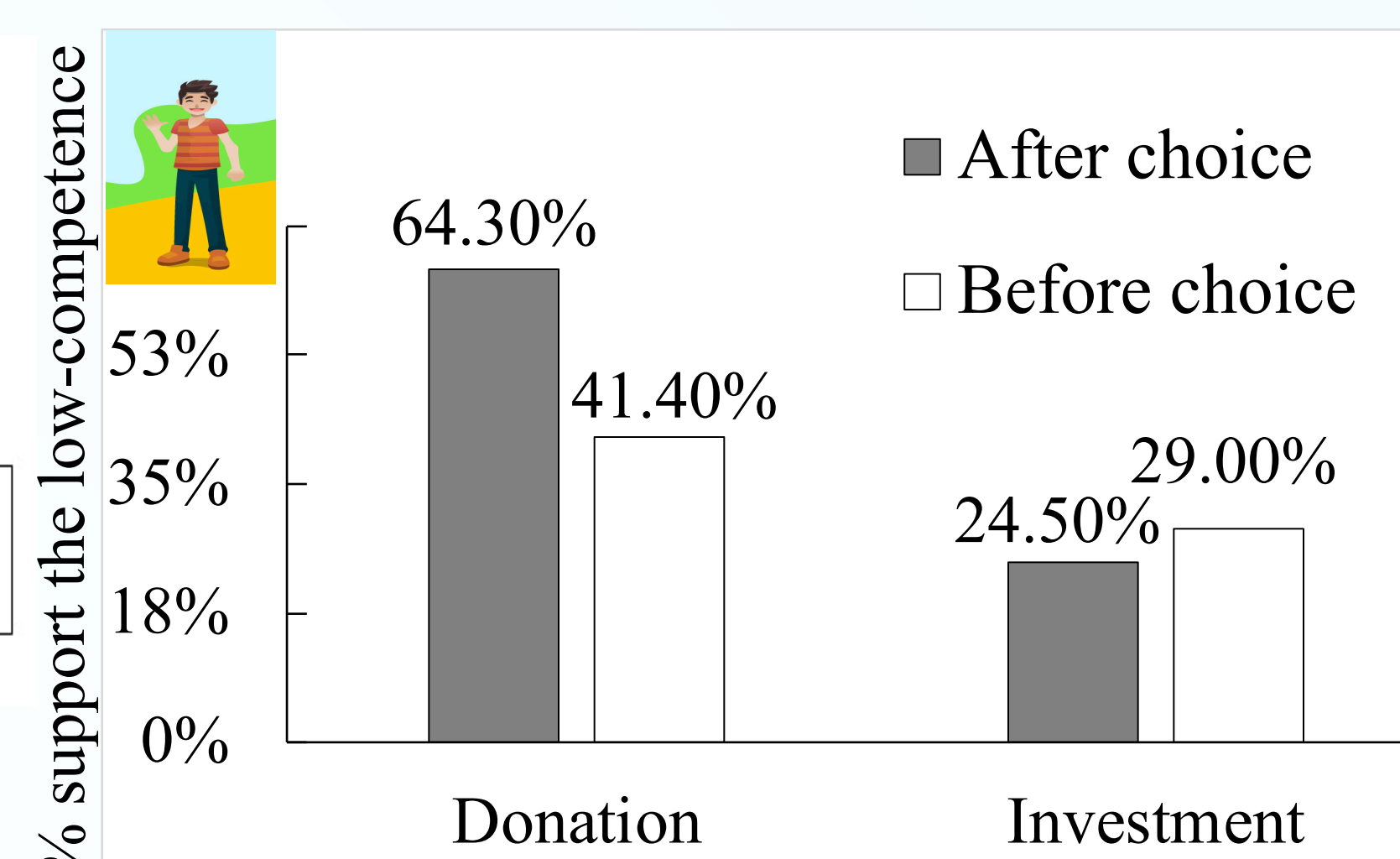
Results

Study 2A & 2B Results
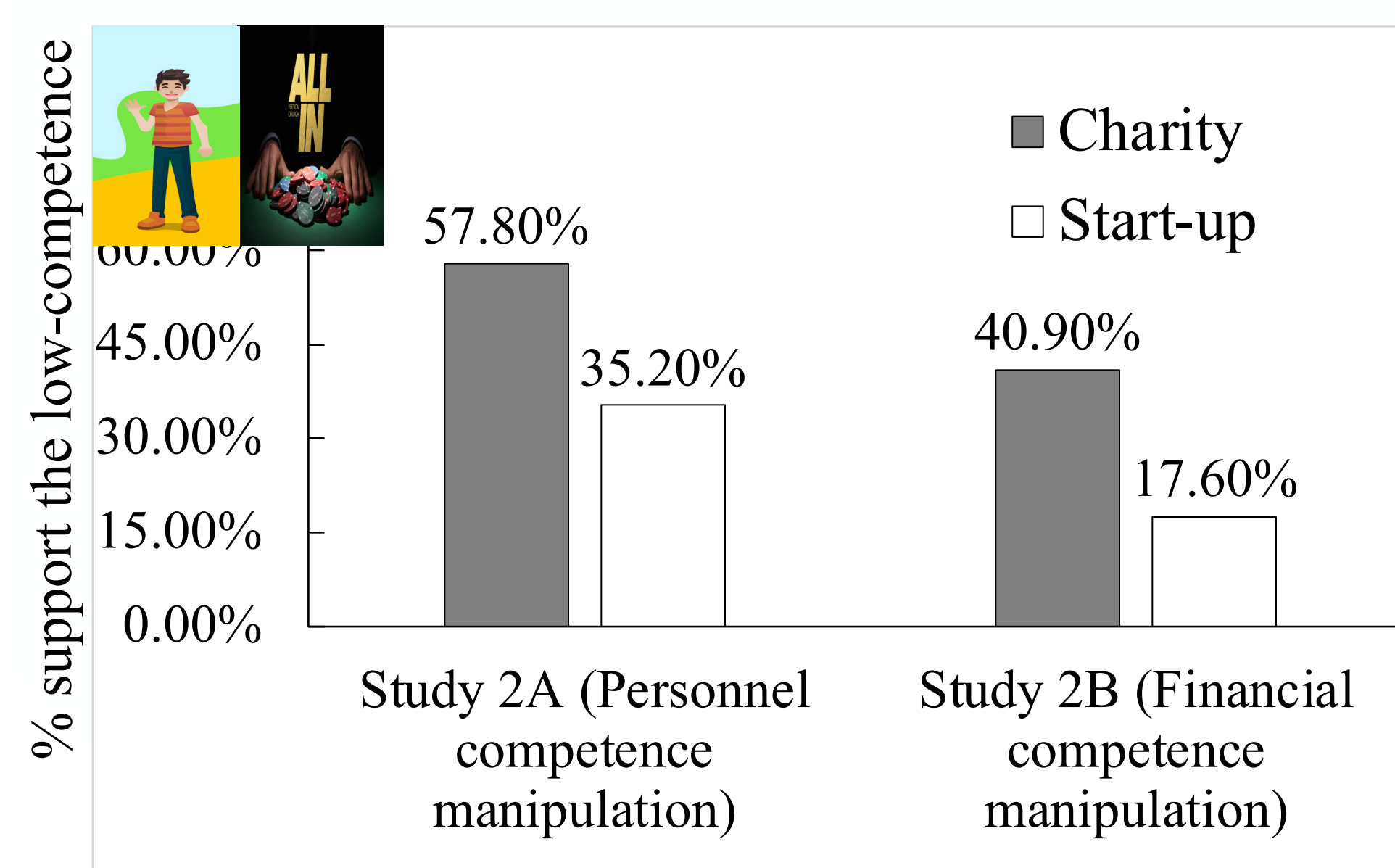
- Participants are less likely to donate to a charity with more professional employees or better financial management compared to investing in for-profit organizations.

Study 3 Results

- Across conditions, participants were more likely to select the charity with low-competence volunteers than those with high-competence ones.
- Differences in perceived need of charities and perceived need of end-beneficiaries serially mediated the effect of competence on donation choices

Study 4 Results

- An impact focus intervention that shifts individuals' attention to the impact of the charities toward the end-beneficiaries attenuated this bias, supporting our need conflation account.

Study 5 Results
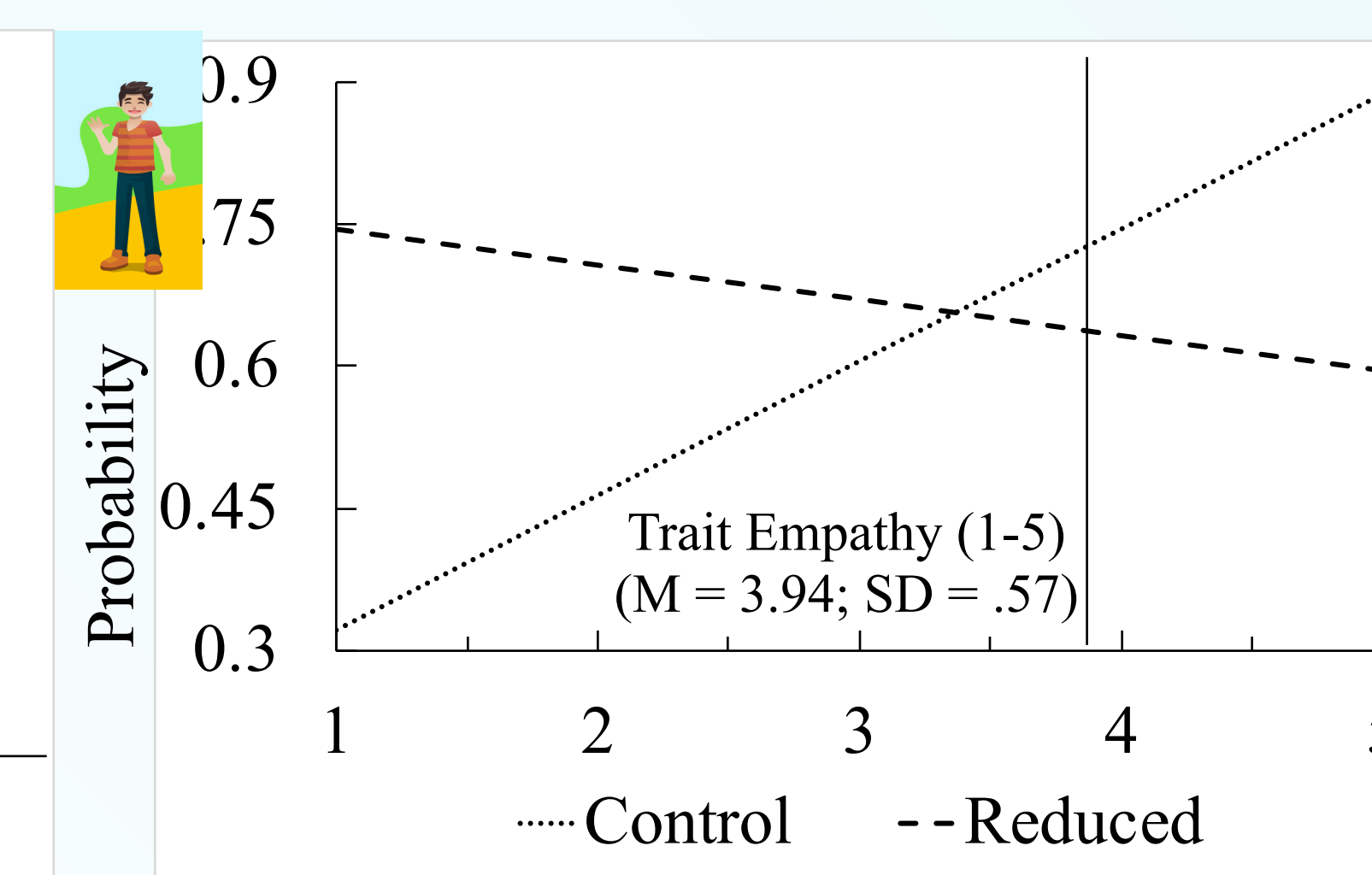
- Reducing individuals' reliance on the need of charities in donation decisions lowed their tendencies to support the low-competence charities, supporting our misattribution account.
- Lower trait empathy attenuates the bias

Conclusion

- Across six studies, we show that competent charities are largely under-rewarded and penalized for being competent, because needs of charities are conflated with needs of end-beneficiaries

(a) Decision type: donation vs. investment (S2A, S2B)
(b) Impact focus (S4)
(c) Explanatory depth (S5)
(d) Trait empathy (S5)