Abstract

Many charitable organizations use the services of professional solicitors to raise funds. Three contract types are most prevalent - percentage based, where the solicitor receives a fixed share of donations; per call based, where the solicitor is paid for each phone call made; and per call with a minimum guarantee based, where the charity is not liable for any potential loss from an unsuccessful campaign. I introduce a theoretical model that rationalizes the choice of contract type and then use a unique data set to test the implications of the theory. Consistent with the predictions of my model, I find that when charities are liquidity constrained, outsourcing is more likely to be done on either a percentage or per call with a minimum guarantee basis. Less liquidity constrained charities can afford to offer higher powered incentives to the solicitor and therefore expect to raise more funds. This creates a dilemma whereby the charities that most need funds are the ones that have the hardest time raising them.