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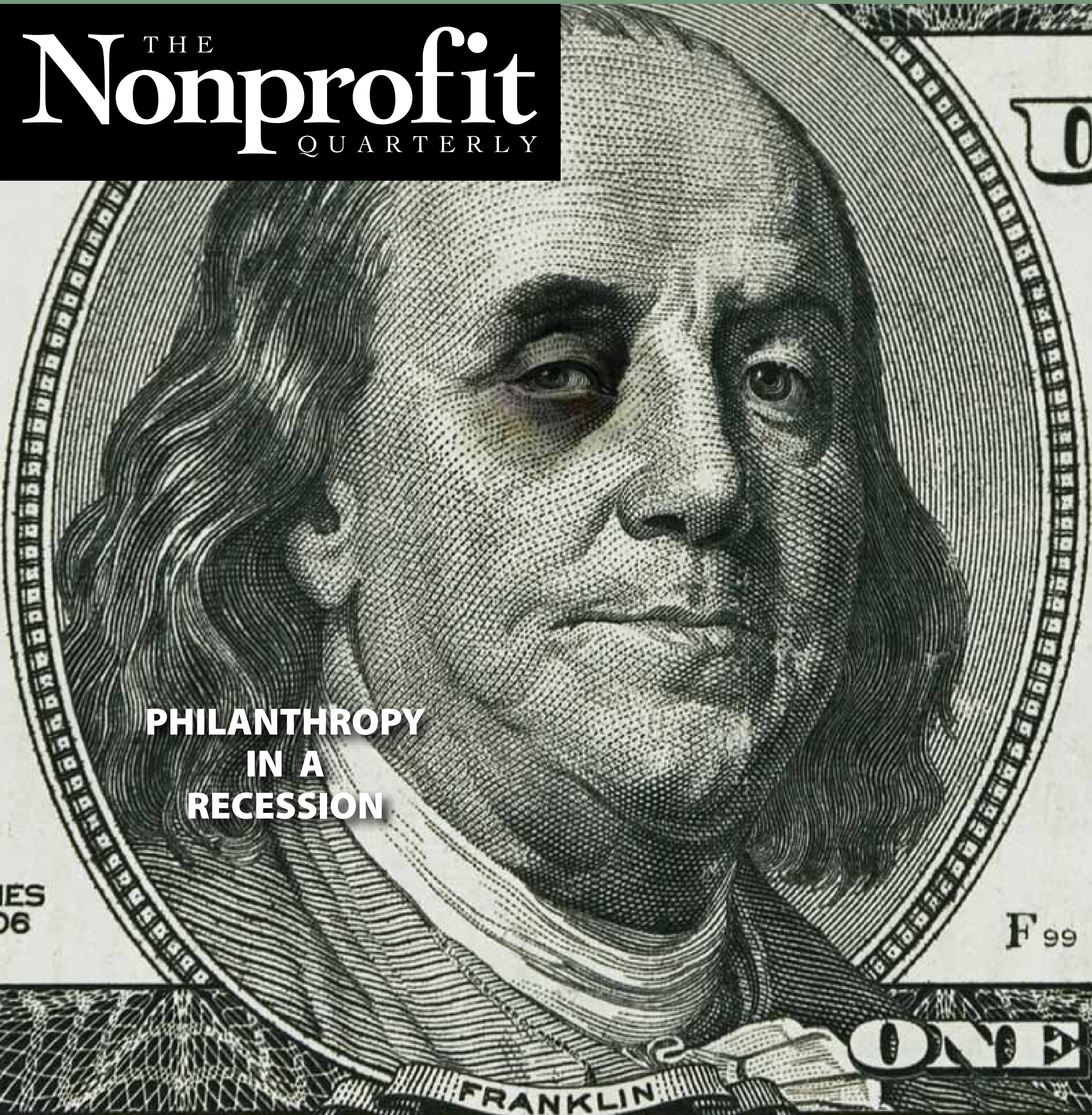
THE Nonprofit QUARTERLY



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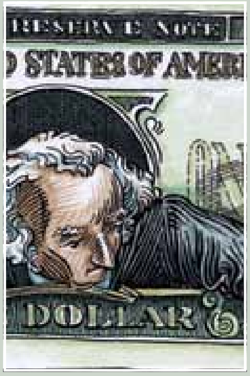

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Satire

The *Nonprofit Quarterly*'s overarching editorial goal is to strengthen the role of nonprofit organizations to activate democracy.

NPQ believes that open societies require venues for individuals to undertake public projects together that are larger than friends and family but smaller than the state and that range from community arts to environmental advocacy. Nonprofits naturally fill this role, particularly when their efforts engage the ideas, energy, and speech of members of their community. *NPQ* believes that in a democratic society the essential role of nonprofit organizations is rooted in the First Amendment and the Universal Declaration of Human Rights, not in the tax code or the market economy.

We live in a world that needs more of what nonprofits can achieve. We know that our communities hold untapped courage, compassion, and support and that nonprofits are uniquely positioned to build relationships and understanding. *NPQ* is committed to provide a forum for the critical thinking and exploration needed to help nonprofits stay true to this democratic calling—and to achieve their potential as effective organizations alongside their constituencies.

THE Nonprofit QUARTERLY

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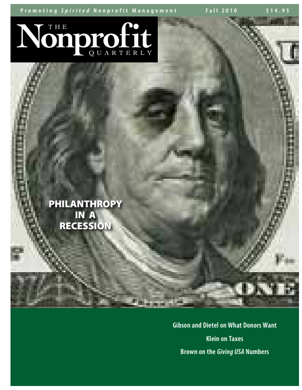
Welcome



Dear readers,

This is certainly a strange time in which to do *NPQ*'s annual issue on philanthropy. What I really want to do is yell "The sky is falling!" but that is probably an overstatement. The sky is not falling exactly—just parts of it.

As I have said previously, this recession is not an equal-opportunity experience. Some organizations have been walloped by serious declines in philanthropy, but such reductions rarely happen in a vacuum; they are accompanied by increases in need, cuts in public funds, reductions in clients' ability to pay, increases in local-service fees, and a host of other factors.

And what this means is that organizations all over the country are beginning to fail. A recent GuideStar survey reveals that 8 percent of respondents believe that they are in imminent danger of closing. This proportion of our sector comes weirdly close to validating Paul Light's original projection in his winter 2008 *NPQ* article "Four Futures" that, during this recession, as many as 100,000 nonprofits could close.

Some organizations handle this instability by "mothballing" operations until they can regain footing or fully consider their options. Some are eviscerating their staff—starting sometimes, surprisingly, at the top. To me, these moves suggest organizations' growing acceptance that incremental strategy may be an insufficient response to the challenge of these times. But I admit, this is just my interpretation.

Some welcome this is!

But even in this atmosphere of decimation, some organizations have done very well, even breaking their own fundraising goals and records. Some United Ways and capital campaigns, for example, have far exceeded their own targets, while others wane. These successes are not so much tied to excellence and accuracy of purpose as is to local economies, a connection between purpose and the monied classes, and the robustness or vulnerability of a particular field of work.

But many nonprofits inhabit a middle ground where they have found that they can—with some vigilance, cuts, and shifts in strategy—survive to continue their work. It is to all these organizations that we dedicate this issue of *NPQ*: those trying to figure out whether hiring a development director makes sense or how to approach donors more effectively even in this time of scarcity.

Not to be Debbie Downer, but this recession is likely to extend for quite a while. We hope that all of you are thinking through your options well ahead of any crisis moment you might face and that your questions include first and foremost this question: "What is best for those we serve?"

The Nonprofit Ethicist

By Woods Bowman

Dear Nonprofit Ethicist,

I recently worked for an emerging nonprofit organization. The founder and founder's spouse still run the organization, but it has grown and is becoming national. The organization currently has four sites across the country, with more planned. The founder's spouse receives about $60,000 in compensation and actively participates in senior staff meetings, yet she does no real work for the organization.

I shared my concerns with board members, who have the same concerns. But they do not seem willing to do anything about it. Recently, I was asked to resign because the founder could not work with me anymore. But I believe the reason is because I pushed on these ethical issues.

As I look for another job, I am receiving severance. Should I just move on and leave this terrible time behind me? Or is there something more I can and should do?

Fed Up

Dear Fed Up,

You are right about this being very wrong. The hardest problem for any nonprofit is what to do with a dysfunctional founder. When a founder is dysfunctional, the rest of the organization often is as well.

Founders are complex beings. They are often brilliant visionaries but unskilled with what they consider to be "details"; they may be unable to cope with adversity; their talents may not grow with the organization; or all of the above and more. In this case, the founder seems to consider obvious everyday ethics as mere details, and those around her have decided to collude. One of a board's main functions is policing an organization's ethics. If it is aware of a problem and won't do its job, there is not much that others can do except complain—as you have—which will often get you ejected.

This founder has put the organization at reputational risk during a period of growth, as you describe it. And that is just plain silly in these unforgiving times. If you care about the organization, you may want to notify the IRS. The intermediate sanctions rules classify both the CEO and spouse as "automatically disqualified individuals." That is, in IRS lingo, they are disqualified from receiving "excess benefits."

The CEO and spouse have the burden of proof to show that the compensation is "reasonable"—in my estimation, a highly unlikely prospect—and they can be subject to stiff penalties, including the requirement to repay the organization all the spouse's compensation from day one.

Anyone can file a complaint (a "referral" in IRS-speak). The Web site features a hot link to the form (see www.irs.gov/irs/article/0,id=178241,00.html; the IRS has a form for just about everything). Unfortunately you may never learn the outcome, because the IRS can't tell you what's happening or even if it has pursued the case. For some, a note from the IRS might provide the wake-up call they need.

Woods Bowman is a professor of public service management at DePaul University.

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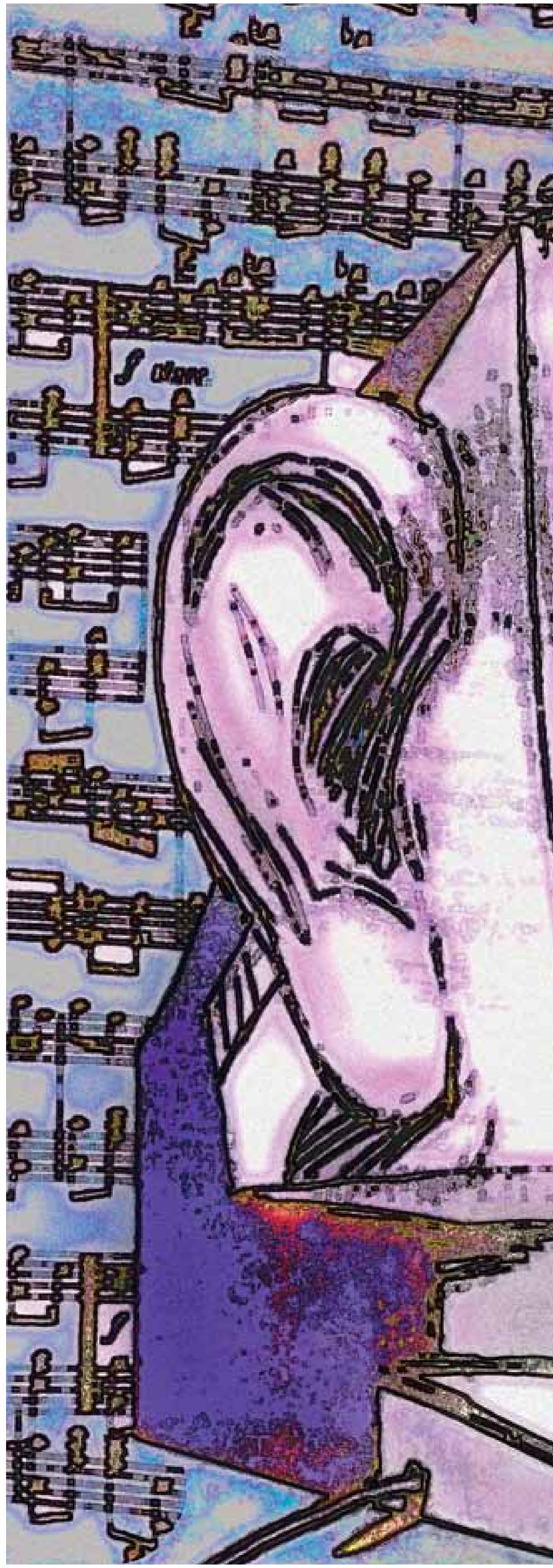
Ask the Ethicist about Your Ethics Connundrum

Write to the Ethicist about your organization's ethical quandary at feedback@npqmag.org.

What *Do* Donors *Want*?

by Cynthia Gibson, Ph.D., and William Dietel, Ph.D.



Do donors want more information about nonprofits, and if so, what kind?

When Sigmund Freud asked, "What do women want?" he probably didn't anticipate the firestorm his question would incite. Some thought the question absurd in its assumption that women could be categorized like butterfly species or wine varietals. Others believed the answer to be patently obvious: Women want what men want. Case closed.

What's clear is that Freud's inquiry has become a cautionary tale about what can happen when seemingly well-intentioned questions miss their mark, eliciting eye rolling ("Don't we already know this?") or head scratching ("The question doesn't take into account the complexity of what it's studying").

Cynthia Gibson, Ph.D., is a senior vice president at at the Philanthropic Initiative in Boston. **William Dietel, Ph.D.,** is a senior partner at Dietel Partners, the former president of the Rockefeller Brothers Fund, and a trustee of the F.B. Heron Fund.

Nonprofit quantitative analyses provide a limited set of indicators for investors seeking evidence of high performance.

That doesn't stop these questions from popping up.

"What do donors want?" seemed to be the question behind a series of grants that the Bill & Melinda Gates Foundation recently awarded to two private consulting firms to encourage more philanthropy, particularly among high-net-worth individuals. One $3 million grant was given to Rockefeller Philanthropy Advisors to develop tools, share knowledge, and disseminate best practices designed to increase giving and impact. The Bridgespan Group received the other grant, in the amount of $5 million, to develop several products, including interactive Web tools designed to help donors make better decisions about their investments.

Reactions to the Gates Foundation grants varied. Some were pleased to see such a powerful show of support for enhancing philanthropic giving. Others thought that this money would have been better spent on addressing more pressing needs, particularly at a time when many nonprofits are in dire straits financially. And there were a lot of people who were unsure about the value of these new resources given the surfeit of research on philanthropy that already exists, including well-funded studies by think tanks, universities, consulting firms, and foundations exploring everything from why people give to why they volunteer.

In short, many wondered: Do donors want more information about nonprofits and if so, what kind? And if they have it, will it change their minds about what they support?

A March to Metrics

There is little question that data, metrics, and measurement have become embedded in the philanthropic process in recent years—practices that were initially met with deep skepticism by some but that eventually gained considerable traction among a majority of nonprofits and philanthropic institutions. Today, in fact, few would argue against the need for more evidence-based measures of progress, outcomes, and impact. Foundations, in particular, have been focused on helping nonprofits beef up their data collection and evaluative capacities given a growing demand from their boards for evidence that their investments were having an impact, as well as increased public and government scrutiny, and competition from private companies moving into markets in which nonprofits had traditionally dominated. Even among nonprofits that initially recoiled at collecting data on their outcomes, there is now a general understanding that "doing God's work" may no longer be sufficient to justify their existence in a rapidly changing world.

As a result, the nonprofit world has seen significant investment in the collection and analysis of data, with the hope that these metrics can be used to improve public accountability and, ultimately, encourage more informed philanthropic giving. The fly in the ointment is that many of these new quantitative analyses focus on variables such as financial performance, the ratio of fundraising expenses to program expenses, governance structures, and other sorts of information that can be easily gleaned from an organization's IRS 990 form. While important, this data makes for a somewhat limited set of indicators, particularly for investors seeking evidence of high performance.

During the past decade, academic studies about philanthropic motivation and performance have also proliferated. But these studies, too, have suffered from limitations that make it difficult to draw firm conclusions. Some studies, for example, have found conflicting results, while others used sample sizes that were too small to generate statistically significant results. Still others were poorly designed.

Nevertheless, many see these efforts as a step forward for a field that had previously escaped rigorous scholarly inquiry and the foundation for a new approach to philanthropy that could provide donors with more proof of "what works." With that information, the reasoning goes, donors can make better investments and, ultimately, have more profound impact on the problems or organizations in which they are interested.

This has prompted organizations that work with donors, both individual and institutional, to develop more robust processes and reporting systems that donors can use to assess nonprofit performance. Today, according to Lucy Bernohlz of Blueprint Research and Design, "There are more than 30 organizations undertaking these kinds of efforts to "track/measure/quantify/ index social value."[1]

Is It Data or Relationships?

Whether donors, particularly high-net-worth individuals, actually want and need this data is still questionable, however. A report published by the William and Flora Hewlett Foundation and McKinsey & Company asserts that they do, pointing to a "subset of affluent donors—along with financial institutions that serve them—[that] is looking for more and better performance information about nonprofits."[2] The report cites as evidence a handful of studies that have been done in this area, including ones by the Center on Philanthropy at Indiana University and the University of Pennsylvania's Center for High Impact Philanthropy.

Results of these and other studies, however, need to be examined carefully before it can be said that they corroborate the hypothesis that donors want or need this kind of information or data. The Center on Philanthropy study, which was sponsored by Bank of America's Philanthropic Management practice, found that the most important motivations for charitable giving by high-net-worth households were "meeting critical needs, giving back to society, and social reciprocity," while "charity as making good business sense" ranked lower on the list.[3] A Center for High Impact Philanthropy study comprised a sample of only 33 individuals—too few to have any statistical significance.[4] Meanwhile, a 2004 attempt by Harvard Business School students to determine what constitutes "rigorous performance metrics" ended up being scrapped because the investigators found little evidence to support their initial hypothesis that donors want this sort of information.[5]

A forthcoming book by Princeton University's Daniel Oppenheimer summarizes the research of several prominent social scientists on the determinants of giving behavior generally and finds that "no matter what objective information is available, the large majority of donors will give as a result of emotional or relational factors."[6] A recent article in the *Economist* cites a study that found that donors "do good because it makes them look good to those whose opinions they care about": what researchers call the "image motivation."[7] And a recent HOPE Consulting study of 4,000 donors found that few investigate nonprofits' performance, with only one-quarter of them saying they would consider switching their support to different charities if those groups improved in areas donors care about. Only one-third said that they'd be interested in giving more if the nonprofits they supported improved their performance.[8]

> **"The large majority of donors will give as a result of emotional or relational factors."**
>
> —Daniel Oppenheimer

Nonprofit leaders tend to agree. According to interviews with a diverse group of high-performing nonprofits conducted by one of the authors of this article, nonprofit leaders said that "while it's nice to have data," most of their donors continue to give "because of the relationships we cultivate with them." In fact, almost all said that while high-performance data helped enhance their credibility in the business community, it wasn't instrumental in attracting donors, especially new individual donors. They also said that they continued to believe that, ultimately, their financial support was going to come from relationships and "emotional connections" rather than from data about performance and impact.

Is Data Used Effectively?

Even if this kind of data could be aggregated in ways that provide donors with a more objective set of standardized metrics with which to assess performance, some are skeptical whether it would actually be used that way, especially by institutional donors such as foundations. They point to cultures within foundations that discourage (or don't reward) collaboration and information sharing; a tendency to assume that each institution "knows best" what to do and how to do it; a preference to "be the first" to fund something, rather than contributing to something that has already been launched by another foundation; and personal, political, and institutional biases about what will be supported, why, and how.

They also note that institutional donors may have little incentive to share information about grantee performance. Some believe that until there is a legal or regulatory requirement forcing foundations to provide detailed information that discloses criteria used to make funding decisions

While metrics are critical, they're only one piece of the puzzle.

and what grantees actually did with their grants, there will be little movement among foundations to embrace a collective standard of due diligence. As one former foundation official told one of the authors, "Even if we did have a set of core metrics, there would have to be a way to weigh each of the categories, depending on what each institution is more interested in—or [a way] to add their own [categories]. But that would seem to defeat the whole purpose of devising a more standardized set of metrics that identifies the highest nonprofit performers."

Another wrinkle is that nonprofits might not be so eager to provide detailed information about their operations, especially if there is no guarantee of funding in return. It's one thing for the IRS to require nonprofits to report financial data, but it's another for individuals or institutions that lack legal sanction to ask for that kind of information. It will, therefore, be important to devise incentives for nonprofits to offer better and more in-depth information about their operations. That will be difficult unless there is evidence that investors' use of data-driven tools actually helps nonprofits obtain more contributions, attract more visibility, or otherwise strengthen them as organizations over time.

This isn't to bash data, however. As noted, the nonprofit sector needs and deserves better evaluative and evidence-driven ways to assess its performance, outcomes, and potential impact. The donors who so generously support nonprofits deserve more information, too. And there is little question that the field of philanthropy has benefited from an infusion of new thinking from the private sector, including its emphasis on market-economy principles.

Finding a Balance: The Art and Science of Philanthropy

But before we rush to the tool kit and assume that better data is all that donors want and need, it's important to take a step back and remember that while metrics are critical and have their place, they're only one piece of the puzzle. As studies indicate, there are other equally important things to consider, among them, personal relationships, family dynamics, social networks, values, and commitment to particular causes or issues.

Amid the "data dash" of recent years, these factors have been increasingly disregarded or overlooked altogether—a trend that reflects the larger culture's skew toward what Donald Schon calls "technical rationality," which occurs when the technical becomes a dominant paradigm "that fails to resolve the dilemma of rigor over relevance." In this vein, *New York Times* columnist David Brooks has highlighted the growth of a "large class of educated professionals who have been trained to do technocratic analysis," seeing it as "the solution to social [problems]." Others, such as Phil Buchanan of the Center for Effective Philanthropy—an organization whose primary mission is to promote data-driven philanthropic practice—express concern about the tendency in some corners to assume that measurement is as simple in philanthropy as it is in business. Buchanan also questions the push for a single measure that could serve as an analog to "return on investment," something he regards as unachievable in the nonprofit sector. He argues that indicators of philanthropic effectiveness are just that—indicators—and that they must be interpreted in light of the values, goals, and strategies of donors.

But philanthropy never has been—and never will be—wholly the domain of science. As Peter Karoff, the founder of the Philanthropic Initiative, notes, "American philanthropy has always been a combination of the heart and mind in the search for the best in people, their organizations, and the relevant world around them." He adds that philanthropy's relevance—perhaps today more than ever—rests on its "purpose, mission and its role and responsibility as private intervention in public space"—what he calls its "moral imagination." Karoff cautions that an overreliance on data and measurable results "makes donors less likely to take actions hard to measure, and thus, more risk averse. But the bigger risk is when relevance becomes a servant to rigor. Great philanthropy is a combination of the heart and the mind—you need both."

The ethos that philanthropy is both an art *and* a science is one that many in the nonprofit and philanthropic sector would like to see more thoughtfully integrated into discussions about what donors want and need. That balance has been achingly absent for too long, despite the essential role that what some call the "soft side" of this work plays in every decision that donors make, from clarifying values to understanding the ethical consequences of their decisions to deciding what form their contributions should take and why. Those are hard things to measure and, yes, hard to get one's arms around, but they are essential human elements in what spurs philanthropy. Dismissing them as risks reduces philanthropy to nothing more than cost-benefit analysis rather than a civic virtue, a deeply held conviction, or something that just makes us happy.

We believe the time has come to find a balance in assessing what donors need and want—and that this balance falls somewhere between data and desire. After all, human beings make philanthropic decisions, not mathematical models or formulae. These human beings bring to the philanthropic process values and feelings and historical experiences that no data set or analytical technique can replace. Perhaps our greatest challenge, then, is less about finding ways to measure and codify philanthropy and more about determining where that practice fits within the larger goal of encouraging more philanthropy among a more diverse group of donors.

Endnotes

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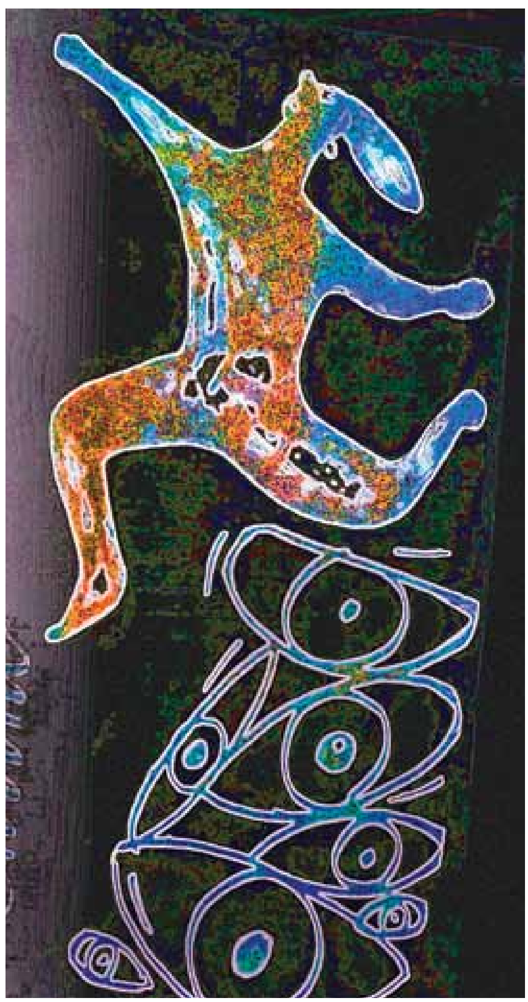


Social Influences *in* Giving

by Rachel Croson, Ph.D., and Jen (Yue) Shang

Individual donations are the bread and butter of the public broadcasting industry.

Editors' note: *The following article was excerpted from the book* The Science of Giving: Experimental Approaches to the Study of Charity, *edited by Danny Oppenheimer and Christopher Olivola. The chapter, entitled "Social Influences in Giving: Field Experiences in Public Radio," by Rachel Croson and Jen (Yue) Shang, provides an approach to understanding the role of social information in fundraising.*

While the public broadcasting environment in which the study was conducted may seem unique, we believe that this article holds implications for online fundraising specifically and also for individual donor fundraising in general.

What social information about fellow donors and a donor's own network has an impact on gift size? This article reviews research in the field, but there is much more to find out.

Individual donations are the bread and butter of the public broadcasting industry in the United States. In 2006, more than 800 member radio stations collected $275 million from individual donors.[1] These donations were collected based on the fundraising principle that public services drive public support: that is, when people listen, they give; when audience declines, so do donations.[2]

This wisdom has inspired sophisticated practices, such as distinguishing between core and fringe listeners, understanding how listener loyalty translates into donations, and learning how to design fundraising appeals to remind people of the importance of listening to public radio. This mental model of fundraising, however, assumes a one-to-one relationship between a station and a donor in the transaction of service and support and does not typically incorporate into the equation the social environment surrounding listeners and donors.

In contrast, our research expands the vision of giving to include the social environment of public-radio donors. The focus of this research is to understand the social environment that surrounds audiences' listening and donating behavior. Our research highlights the observation that

Rachel Croson received her Ph.D. in economics from Harvard University in 1994 and is currently a professor at the University of Texas at Dallas. **Jen Shang** is the world's only philanthropic psychologist and is an assistant professor at the School of Public and Environmental Affairs at Indiana University–Bloomington.

listeners and donors are not only individuals who act on their own but also social animals.[3] They live in connection with one another. Audience research can indicate how much an individual listens, but it does not tell us how long they listen with friends, how much they talk with others about the programs they listen to, how often they discuss their donation decisions with their family, how their donations are influenced by others' donations, or how much listening and donating constitutes their self-identity.[4]

Our research set out to study this social context surrounding listening to public radio and, in turn, donating. So, first, we review the research on how providing potential donors with information on other donors' contributions affects donations. Second, we discuss the impact of such information on others' *use* of or *value* of the organization.

Models of charitable giving typically balance these two factors within the individual. In deciding whether or how much to give, an individual compares the value of an organization's services with his potential contribution. He contributes up to the amount that he values an organization's work. We argue for an expanded conception of an individual's value of an organization that includes not only the value an individual receives but also the value his social network receives. What members of the network value increases their satisfaction and, thus, our own. Thus supporting services that provide value to one's social network in turn supports one's own values.

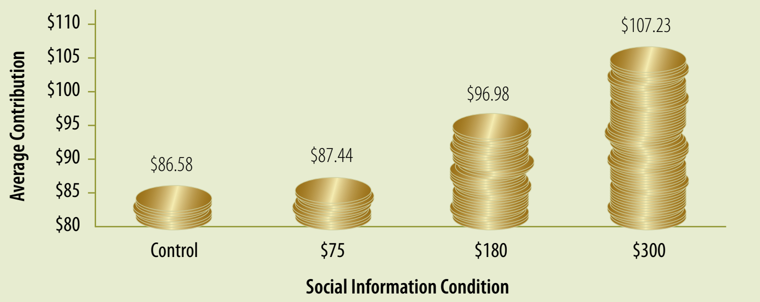
Social Information

Various research suggests that people's behavior is driven by their perceptions of others' behavior. These perceptions are termed *descriptive social norms*, which specify typical behavior in a given setting (what most people do), and differentiate this behavior from *injunctive social norms*, which specify which behaviors garner approval in society (what people ought to do).

In Shang and Croson, we amended a script that volunteers used when listeners called to make

People's behavior is driven by their perceptions of others' behavior.

Figure 1:
Social information increases new donors' contribution levels.



Downward social information has about twice the impact of upward social information.

a donation.[5] After being greeted by a volunteer, callers were randomly assigned to either a control group (where they received no social information) or to an experimental group in which were told, "We had another donor who gave X dollars. How much would you like to give today?" These amounts varied in increments of $75, $180, and $300, and we examined each increment's impact on giving.

Our findings indicate that providing social information increases donation amounts but that there is an optimal "specimen" amount. Figure 1 shows the average gift from new donors in the control group, where donors received no social information, alongside those in the experimental group, where callers learned about other donors having made a gift of $75, $180, or $300 (see figure 1, above). In this case, citing a prior donation of $300 was the most profitable and increased the amount of new donations by an average of 29 percent.

For donors who called to renew an existing membership, a similar picture emerged. Figure 2 on page 15 shows that donors not exposed to social information gave almost the same amount as they had given the previous year (with an increase of only 71 cents). Donors who were exposed to social information, however, gave markedly more than they had given previously. In the $300 condition, their contributions increased by $26.47.

These results raise a natural question about the optimal level of social information to provide. After further research, we conclude that the ideal amount to indicate as a prior donor's gift is between the 90th and 95th percentile of the value of previous gifts to the radio station. Higher levels of social information actually *decrease* individual giving.

These studies all examine the impact of *upward* social information (where another donor has given more than the target). But what is the impact of *downward* social information? We answered this question using a direct-mail campaign for the same radio station.

In this study, existing donors received solicitations to renew their membership. We collected data on each donor's contribution from the previous year. Some donors received materials that indicated another donor had contributed exactly the same amount as the donor's previous contribution (although donors were not reminded of the amount). Others received materials that indicated that another donor had contributed more than their previous year's contribution. Still others received materials that indicated that another donor had contributed less than their previous year's contribution.

Figure 3 describes the change in donor contributions in each of the three conditions (see page 16). Donors who received social information higher than their previous year's contribution increased their contribution by $12 on average. Donors who received social information that was the same as their previous year's contribution increased their contribution by $5.45 on average. But donors who received social information lower than their previous year's contribution decreased their contribution by $24 on average.

This research illustrates two important points about social information. First, social information is as effective in influencing contributions when delivered via mail as it is when delivered over the phone. Second, downward social information has about twice the impact of upward social information. The reduction in contributions as a result of *downward* social information was twice the amount of the increase in contributions as a result of *upward* social information. For fundraisers, this suggests an important caveat. Appeals should be customized to donors to prevent giving too much downward social information, which often decreases contributions.

Intuitively one might expect that prompting a donor to increase his giving one year might reduce his giving the next (a phenomenon known as *intertemporal crowding-out*). But this expectation turns out not to be the case. In fact, quite the opposite effect occurs. A year later, contributions from new donors who received information about a previous donor's contribution are approximately $20 higher than contributions from donors in the control group who do not receive such information.

Even with this result, we cannot conclude that the script donors receive in one year influences their giving in the following year.

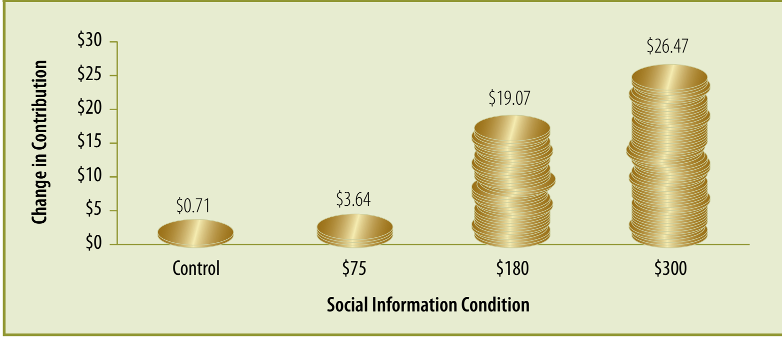
In a follow-up experiment, few donors remembered the script they heard a year prior, and it's unreasonable to assume that the script has long-lasting effect. Instead the impact seems to be one of giving "stickiness." A donor remembers giving more in the previous year (although not *why* he gave more), and this fact increases giving in the current year. Similarly, we anticipate that if an organization follows up with these donors with personalized request strings, this strategy may keep donors at this higher level of giving.

In another study, Shang, Reed, and Croson examine the interaction between social information and social identity on public-radio contributions.[6] The project investigated whether donors give more money when they are told that a previous donor *who shares their identity* also made a large contribution.

Extensive literature in consumer behavior shows that identity influences the effectiveness of social information—and for various reasons. First, social identities may indicate the decisions or judgments at hand. Thus when the identity of others is similar to a target consumer's identity, their behavior becomes more relevant to this consumer. Second, individuals may want to conform to the behavior of others like them, but not to the behavior of those unlike them. So the more similar an individual is to the source of the social information, the stronger the potential impact of this information.

In this study, we used gender match or mismatch between a target donor and a previous donor. We chose gender because, in psychological literature, it is a well-established dimension of social identity. In various settings, males and females behave in ways that are consistent with those of the same gender. Therefore, in the domain of charitable contributions, we expected that gender identity could influence the strength of the social information effect that we have outlined above.

Figure 2: Social information increases renewing donors' contribution levels compared with the previous year's contribution.



People do not give to causes but to people.

In this study, we changed the wording of the telephone script from "We had another donor *who* gave $300" to "We had another donor; and *he* [or *she*] gave $300." We then compared contributions of callers whose gender matched that of the "other donor" and those whose gender differed from that of the "other donor." No callers received the control condition or learned about other dollar amounts. Figure 4 shows the results (see page 16).

In cases where the gender of the caller was matched with the gender of the example, the amount of the gift increased by an average of 34 percent. This result tells us that individuals pay attention to social information and, in particular, social information from others who are similar to themselves. It also tells us that this information can dramatically increase giving.

In theory, this effect is more likely when donors have strong social identity. Our own research supports this prediction. Individuals who more positively identify with being male (or female) demonstrated this effect more strongly.

Social influence has a strong impact on individual giving. Informing donors about others' donations can significantly increase or decrease their own donation. Choosing the appropriate level of social information to communicate is critical; and our research indicates that contributions in the 90th or 95th percentile of the contribution

Figure 3:
Social information influences contributions via both mail and phone.

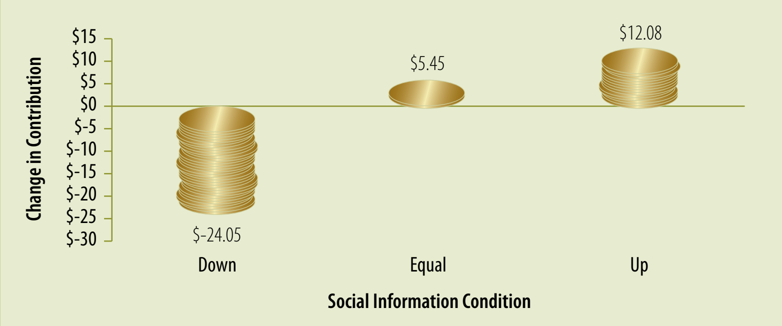
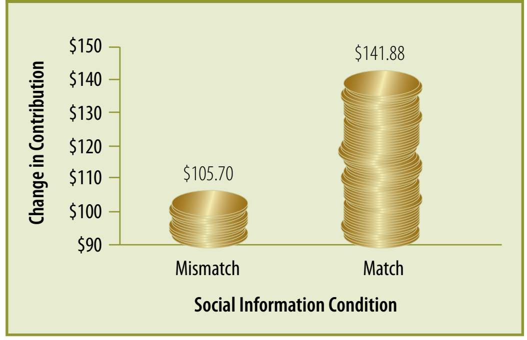


Figure 4:
Social information has greater impact for matched genders.



The size of a donor's social network can have a major impact on giving.

distribution are high enough to induce increased giving but not so high as to scare off low donors. And social information that is lower than what a donor would have given significantly reduces the amount of a donation.

Further research suggests that conformity to the descriptive norm causes this result. As the social similarity between the target donor and the example donor increases, the effect of social information increases.[7]

Does Size Matter? Social Networks and Giving

The power of social capital in civic engagement has become well known. Fundraising professionals know that people do not give to causes but to people. This understanding has spawned literature and practice on peer-to-peer giving and solicitation, where current donors solicit or recruit new donors using existing social networks.

In light of this, we'll now consider two questions: Is the size of a potential donor's social network correlated with the level of contribution? And does the *priming* of the social network drive this relationship?

The first question draws directly from previous research, which demonstrates that larger networks affect behavior in other domains. In particular, we hypothesize that the value an individual receives from a radio station depends not only on the value he receives from listening to the station but also on the value his social network receives from a radio station's services. As the social network grows, an individual's total value received from the station's services also grows, which increases his willingness to contribute to the station's continued operations. Note that, as we outlined at the beginning of this article, this hypothesis expands the notion of individual value (or exchange) to include value received directly (as previous work has hypothesized) and indirectly (via the social network).

Our study also explored the question of whether, when a donor makes a donation decision, he considers the *indirect* value he receives from an organization's services. If a potential donor is *primed* to consider his social network, this indirect value will be highlighted and included in his calculation of how much to give. Thus we expect that the size of a donor's social network is related to his contribution—especially when this factor has been primed before a donor makes his contribution decision.

In a field experiment at a public radio station, we tested these hypotheses. The station has three on-air fund drives per year. DJs request donations and suggest a variety of contribution levels. A $120 gift makes the donor a basic member; listeners who give $150 to $180 receive additional gifts. Other gift levels are $240, $365, $500, $1,000, $1,200, $2,500, and $5,000. In response to these appeals, listeners make contributions over the phone.

In the experiment reported here, we asked callers about their social networks before or after they made a contribution. We then examine the relationship between the size of a donor's social network and the amount contributed.

The Experiment

Conducted in 2006 and 2007, the experiment collected data on 547 callers to a public radio station in the Midwest during a fundraising drive. During the on-air drive, station DJs interspersed news and informational programs with appeals for donations. Listeners responded to on-air appeals and called the station to make a pledge. Experimenters answered the phone as volunteers for the station, asked the routine questions for the station, then implemented the test in the appropriate place in the conversation.

We asked all callers how many of their friends and family also listened to the station and recorded the outcome (i.e., the size of donors' network). For half the callers, all of whom were randomly selected, we asked this question before they made their contribution; for the other half, we asked after.

Overall, we found a significant (and large) effect of the size of the social network on giving. For each additional person in a caller's social network, the donor contributed slightly more than $1 ($1.32).

One of the questions was, does it matter when callers are asked about their social network? For fundraisers, our results have interesting implications. According to the data, when individuals have small social networks, priming is likely to be ineffective and may even reduce their contribution relative to what it would have been without their being primed. When social networks are fewer than 20 people, callers who are not primed give more than those who are primed. But when individuals have large social networks (of more than 20 people), priming increases contributions. Thus, one recommendation for fundraising practitioners is to *selectively* prime individuals who they believe are well connected and to avoid priming others.

A second recommendation is for an organization to increase the size of a donor's social network. This can be done in several ways, including (1) encouraging a potential donor to introduce his existing friends and family to an organization and its mission (a variant of recruiting) or (2) providing opportunities for existing members of an organization to become friends and thus join one another's networks (via social events among donors). Our research suggests that these activities can increase the social networks of existing donors who, when primed, will subsequently increase their giving.

New Tools to Improve Fundraising

As fundraisers approach their work, this research provides insight into the psychology of giving and provides another tool in their tool belt. But as with any research, this body of work has limitations. First, as mentioned above, public radio is an interesting and important domain to investigate social influences. But with field experiments, generalization is always a concern. Testing similar interventions in other nonprofit settings would be useful.

Second, we have reported on two particular social influences on giving (social information and social networks). But there are certainly others that are possibly even more effective and have yet to be tested. The potential influences on why and how much donors give are important to those of us working to raise money for nonprofits. At minimum, however, this research indicates that providing information to donors can improve giving rates, and organizations can work to tailor and test these initial results to their environments.

Endnotes

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4. "Audience Research Analysis" (www.aranet.com), 1988, 1998, 2010.

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Talking About Taxes

by Kim Klein

Every day, donors face mini-Hobson's choices.

Editors' note: NPQ *has covered the issue of taxes in Chuck Collins, "Responding to the Shrink, Shift, and Shaft Tax Cut Agenda,"* NPQ, *vol. 12, no. 1, spring 2005, and in Karen Kraut, "High Stakes: Why and How Nonprofits Must Engage on State Tax Policy,"* NPQ, *vol. 12, no. 2, summer 2005.*

I have been in fundraising for 35 years and have spent most of the past 20 years teaching, writing, and consulting with small nonprofits to help them build a broad donor base, or "grassroots fundraising." When people ask whether I have proof that the fundraising methods I recommend work, particularly for social-justice organizations, I offer what I refer to as "poster children" in grassroots fundraising. Some of these groups are rural, some are in low-income urban neighborhoods, and others serve entire states.

Starting about 10 years ago and with the almost-exponential increases in more recent years, these same poster children began to call me saying, "We can't raise as much money as we used to" or "Our fundraising isn't working, and we can't figure out why." In turn, I try to figure out the problem: Do you have a new board that isn't doing its job? Has the executive director burned out? Are you taking shortcuts with your donor relations? Sometimes I have identified the problems and worked with organizations to solve them.

But mostly I, along with many other grassroots fundraising experts, realized the real problem: starved of sufficient tax revenue, public agencies had moved into raising money from individuals, foundations, and corporations (i.e., the private sector), but the private sector simply doesn't have enough money to do everything that it is called on to do while also paying for services that were previously funded publicly. Every day, donors face these mini-Hobson's choices: "I'd like to give to my local theater, but I have to help my kid's public school" or "I agree that we need to organize tenants, but right now I give my money to programs serving the homeless."

So I started to be direct during my training sessions. "If you use these methods, you will raise more money. Still, it may not be enough,

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The nonprofit sector does not have an identity of its own.

because without public funding for public services, without appropriate revenue created by fair and just tax policies, there simply isn't enough money to do all that is demanded of the nonprofit sector."

When I say this during my training, attendees look stunned. When the recession hit more than two years ago, cuts to nonprofits came fast and furious—not just from government but also from foundations. In response to cuts in funding, nonprofits reduced their budgets, essentially putting their own hands around their necks and slowly squeezing the life out of themselves.

The Nonprofit Tax Crisis

Nonprofits that rely on government funding to provide needed services have watched their funding shrink more and more while the cost of doing business and the need for their work increase. This situation has reached crisis proportions, with thousands of nonprofits laying off staff, cutting programs, and even going out of business altogether. The bottom line is that without significant restoration of government revenue, there is not enough money to do the work that communities count on nonprofits to do.

Compounding the problem is the fact that nonprofits (with few exceptions) have not taken a leadership role in advocating fair and just tax policies that can create a tax stream capable of maintaining a social safety net and an adequate quality of life. In the vast majority of states, and certainly nationally, there is no "nonprofit lobby." Members of Congress do not look out their windows and think, "Oh, no, the nonprofit lobby is here."

Social-service agencies have turned themselves into pretzels to meet increasing need with less funding. And the problem is that every time we try to do more work, help more people, and provide more services with the same amount—or often less—money, we say to the right wing, to the Grover Norquists of the world: "You were right. We didn't need that much money to do our work."

Still, most nonprofits don't advocate revenue solutions to public-funding shortages. In my conversations with dozens of people about how we got into the mess, and why we have been very slow to figure a way out, I came up with four tactics for the nonprofit sector to stand up for itself and tackle the prevalent revenue shortages to work for the common good.

1. **The nonprofit sector needs a unified identity and voice.** The nonprofit sector does not have an identity of its own. While subsets of the sector—such as education, health care, seniors, and human rights—are clearly identified with their causes, these subsectors do little as a united front of "nonprofitness." In contrast, the corporate sector has an identity and will advocate for itself. To be sure, subsets of the corporate sector—such as the oil, pharmaceutical, banking, and weapons industries—also lobby for themselves. But they also band together to make their needs known.

Members of the nonprofit sector need to come out of their silos and work together. Nonprofits that are not government funded need to recognize that they have just as big a stake in tax policy as those who are entirely government funded.

2. **The nonprofit sector needs to learn about taxes.** There is an appalling ignorance about issues concerning tax and budget structure among nonprofit staff. In my—admittedly not scientific but still fairly large—survey of nonprofit staff, few knew how their state budget structure worked, and few had opinions on issues such as what the estate tax should be or whether an increasing sales tax on alcohol and soda is a good thing or pushes an even greater tax burden onto poor people. (This may be true among the public at large as well.) In keeping with the overworked and beleaguered culture that prevails in nonprofits today, nonprofit staff members believe that there is little they can do to influence tax policy and therefore believe that it's worthless to learn about taxes. There is a related unwillingness to stand up for our organizations and those we serve for fear of losing our tax status or further funding or out of an inability to budget the time.

State Groups Tackle Tax Fairness by Shannon Moriarty and Karen Kraut

It's July 2010, and organizers from 10 state-level grassroots groups have traveled to Washington, D.C. Rob Brown of Opportunity Maine is at the front of the room addressing the crowd. "Firefighters and other local law enforcement are key allies in property tax–cap campaigns," Brown says, as listeners scribble in notebooks and clack on laptops. "Their perspective tends to be universally appealing to even the staunchest skeptic."

At the event, Brown shared best practices and lessons from Maine's successful campaign to defeat a property tax–cap ballot initiative with leaders of grassroots state tax-fairness organizations from across the country. All groups are members of the Tax Fairness Organizing Collaborative (TFOC), a coalition of 28 grassroots groups in 24 states working to promote progressive-tax reform. Progressive taxes, such as the federal income tax, require upper-income people to pay more of their income in taxes than those with lower-incomes. This is different from a flat tax, such as a sales tax, which applies the same tax rate to all individuals regardless of income level. Thus, flat taxes take a higher portion of income from low-income people than from high-income people.

The TFOC is a project of United for a Fair Economy, a national economic-justice advocacy organization. The TFOC operates in stark contrast to the brassy, anti-tax, antigovernment Tea Party. The TFOC believes that government enhances quality of life and that collecting government revenue through taxes is a necessity that should be done fairly, responsibly, and through policies that reflect our society's values.

In some communities, organizing work to promote tax fairness has taken place for decades. But in early 2000, the movement came to a head, following the bursting of the technology bubble and waning government support for public services. As more people felt the effects of severe budget cuts and imbalanced tax policies, the movement gained momentum. By 2004 the TFOC launched to strengthen state-level efforts and facilitate connectivity across state lines. The TFOC has filled an important role in the progressive movement by providing a national infrastructure for tax-fairness organizers to collaborate, share best practices, problem-solve, and learn the latest in communications from pollsters and researchers. Through the TFOC, grassroots leaders regularly convene in affinity groups to tackle common issues, such as no-income-tax states, conservative states where taxes are limited, and states fighting corporate tax loopholes. The emphasis on grassroots organizing distinguishes the TFOC from other progressive tax-policy organizations and networks.

In the states, the tax fairness movement is firmly in place. And the work is more important than ever. From New York to Nevada, grassroots organizations have led the fight for progressive and adequate revenue to support the schools, bridges, parks, and other public resources that keep our communities strong. To a large extent, these organizations are part of coalitions that include teachers, seniors, human-service associations, community organizations, unions, faith-based organizations, and various nonprofit advocacy groups. A snapshot of the work taking place in states across the country paints a hopeful picture:

- **Washington.** Washington Community Action Network has led the field campaign to pass I-1098, a November 2010 statewide ballot initiative to cut property taxes and taxes on small businesses to benefit the middle class and establish a high-earners income tax for the wealthiest 1.2 percent of households (that is, families earning more than $400,000 annually, or individuals earning more than $200,000 a year).
- **Alabama.** Alabama Arise has worked to remove the state sales tax from grocery purchases and to pay for it by eliminating the state tax deduction for federal taxes paid, which benefits primarily the wealthy.
- **Colorado.** The Colorado Progressive Coalition (CPC) has co-led the fight to defeat three measures on the ballot in November 2010 that would cut state and local taxes, fines, and fees and prevent the funding of long-term infrastructure projects. CPC plays an integral part in the campaign to defeat these initiatives by running the fieldwork operation, coordinating messaging throughout the state, and providing community-level education.
- **Tennessee.** Tennesseans for Fair Taxation's overarching goal is to modernize the state's tax system. This includes working to reduce the general sales tax, eliminate the tax on food, and implement a personal income tax with generous exemptions for low-income families.
- **Nevada.** The Silver State has been hit hard by the recession, unemployment, and the foreclosure crisis, particularly because of its long-standing reliance on gaming taxes and regressive sales taxes. The Progressive Leadership Alliance of Nevada advocates creating new sources of revenue to support critical public services, including extraction taxes on the state's gold-mining industry.

In communities across the country, great grassroots work is happening, but the challenges remain acute. As more families are having trouble making ends meet, countering the anti-tax rhetoric is particularly challenging. But we all have a vested interest in our government's tax system, since fair and adequate revenue is critical for our communities to thrive. And through the tax fairness movement, state-level grassroots organizations and their allies are working to rebuild—from the bottom up—a more progressive tax system that reflects values of fairness, responsibility, and sustainability.

Karen Kraut is a coordinator at the Tax Fairness Organizing Collaborative. **Shannon Moriarty** is the TFOC's communications director.

We need to make the connection between taxes and the common good.

3. **The nonprofit sector needs to educate others on taxes.** The organizations that work on and advocate improvements in tax policy tend to do so this way: "Here are a bunch of difficult-to-understand facts (which are mostly numbers), and here is what you should do: advocate for this, vote for that." The problem with giving people a lot of information and then telling them to act on it is that no time has been spent in identifying what people think or feel to begin with. A Canadian activist once told me, "When American activists see a problem or injustice, they immediately say, 'What shall we do? What shall we do?' And they run around doing a lot, but much of it is ineffective, because they don't stop to say, 'What do I think about this? What do others think? Are my feelings and my thoughts different? Am I acting out of what I have been taught to think, or have I taken the time to create my own thinking? Whom can I talk with?'"

We take great pride in saying that people have the right to their opinions, but people won't form and vocalize opinions if their experience is that no one ever asks for their opinions.

4. **The nonprofit sector needs to ask important questions.** Organized philanthropy is no help, either. Recently, for example, the Giving Pledge received a good deal of praise. Led by Warren Buffett and Bill Gates, the program encourages wealthy people to give and pledge to give significant portions of their wealth and to encourage others to do so as well. Certainly we do not wish to disrespect enormous generosity, but the praise for this effort also needs to include a question: what kind of a dysfunctional society allows people to accumulate so much wealth in the first place? We see little advocacy concerning the estate tax, and large coalitions of nonprofits have opposed the proposal from President Barack Obama to cap deductions, even though 71 percent of Americans file a short form and receive no tax benefit for their giving.

To my knowledge—and I would love to be wrong—there is no major coalition of nonprofits that has asked about the purpose of taxes and why we have a tax system that redistributes massive wealth to fewer and fewer people. A few peeps of polite protest here and there won't do the trick.

There is no easy solution to this complicated problem, but any solution must begin with educating ourselves and one another about the role of taxes in public life. Taxes are primarily a revenue tool, but they are also a mirror of community values. We need to make the connection between taxes and the common good. I agree with the economist Adam Smith, who asserted in the late 1700s that "the goal of taxes should be to remedy inequality as much as possible."

Nonprofit Efforts for Tax Fairness

So what have nonprofits done about taxes? There are efforts under way in states from Alabama to Oregon to advocate for fair taxes and to organize others to do the same (see "State Groups Tackle Tax Fairness" on page 21). The national coalition, the Tax Fairness Organizing Collaborative, spearheaded by United for a Fair Economy, for instance, has worked hard to establish effective national tax organizing infrastructure.

In California, the nonprofit sector, which comprises more than 160,000 organizations, employs 10 percent of the workforce, or about 1.3 million people, and is the second largest nonprofit workforce in the United States. The nonprofit sector has primary responsibility for providing programs that address poverty, hunger, homelessness, domestic violence, arts and culture, environmental protection and preservation, and the list goes on. Increasingly, nonprofit organizations partner with public schools, public parks, public-health departments, and prisons to help raise money and provide services that these entities no longer can because of budget cutbacks. Many nonprofits receive direct government funding to do their work, and all nonprofits benefit from tax policies designed to allow nonprofits to survive in a for-profit, free-market economy.

In a 2009 Council of Nonprofits survey on the effect of the recession on nonprofits, 58 percent of nonprofits reported an increase in the number of people needing services, with some reporting a doubling in demand. And 93 percent of those providing "lifeline" services experienced almost unmanageable increases. Almost all government-funded nonprofits report cutbacks, some of which are draconian in size and scope.

Nonprofits have been advised to create other income streams, develop a broad base of individual donors, and seek foundation funding. Many capacity builders have done their best to help nonprofits make this shift in their business model and their organizational culture, but we also know from studies and our own observation that private-sector funding (from foundations, corporations, and individuals) cannot replace government funding. Lester Salomon and other researchers have noted that since the Reagan tax cuts of the 1980s, the private sector is simply not large enough to replace government funding. And even if it were, is a democracy best served when so many programs and services are dependent on the largesse of private charity?

Show Me the Money

An example of tax fairness efforts by nonprofits is Show Me the Money, a project in California that combines the smarts, reach, and knowledge of the Building Movement Project, CompassPoint Nonprofit Services, the California Pan-Ethnic Health Network (along with a loose coalition of other agencies).The goal of Show Me the Money is to involve nonprofit staff in reform efforts to overhaul California's tax and budget structure.

Over the next 20 months, Show Me the Money will engage nearly 10,000 nonprofit staff in thought-provoking presentations and discussions throughout California. By February 2011, Show Me the Money will conduct four Train the Trainer sessions throughout California as well as workshops and conference presentations for nonprofit staff to reach approximately 3,000 staff. By significantly increasing training capacity, we expect to reach at least 7,000 additional people in 2011.

Show Me the Money aims to help nonprofit workers form their own opinions about tax and budget policy, to realize that they don't have to be experts to understand how taxes work and to vote intelligently, to encourage them to continue conversations about taxes in their own networks, and to get involved in progressive local and statewide campaign efforts to reform our tax structure. On their own time, they can also support candidates that have a progressive tax agenda.

I am hopeful that coalitions in other states will want to work with the Building Movement Project in adapting this curriculum to their own state (or city, for that matter). The project is not expensive: it is volunteer driven, with volunteers doing the training, organizations voluntarily hosting them, and a lot of social media which take the campaign viral.

We are in the beginning stages, but I have great hopes for the project. While the recession has caused enormous suffering, it has also created one of the most important opportunities in my lifetime for promoting profound economic change. Today every economic assumption is up for grabs. People are talking about banking, regulation, compensation, the role of government, and the role of the corporate sector in a deep and thoughtful way, and they are asking fundamental questions.

Those of us in the progressive nonprofit sector need to get out in front of this "movement moment" and provide suggestions—and even answers—to the questions people have, and we must invite people to develop their own analysis. The right wing will happily provide simple, easy-to-understand answers, largely beginning and ending with a no-taxes frame. A simple, easy-to-understand beginning frame also begins and ends with the common good. Peter Maurin, a teacher of Dorothy Day who also founded the Catholic Worker Movement, said that our job is to "create a society in which it is easy to be good." Such a society has many elements, but it presumes a commitment to a rough social equity that is partly achieved by a progressive tax system. The nonprofit sector is key to insisting on this, or it will be the primary victim of its absence. It is our choice, and it must be made quickly.

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Is a democracy best served when so many programs are dependent on the largesse of private charity?

Great Expectations:

How Executive Directors Can Create Powerful Fundraising Partnerships

by Jeanne Bell and Byron Johnson

Many nonprofits suffer from an unhealthy dynamic: the revolving-door development position.

We routinely hear desperation among community nonprofit executive directors about finding and keeping a good development director. This frustration is matched only by the exasperation many executive directors profess about the performance of the development directors they *have* hired. "She hasn't brought in a single new foundation funder yet, and she's been here six months!" and "I thought he was bringing his donor contacts from his previous job, but our individual giving numbers are where they were before he got here!"

These all-too-common refrains are part of an unhealthy dynamic in many nonprofits: the revolving-door development position. In our practice, we regularly encounter organizations that have hired three development directors in three years as well as those that limp along with a development director position that has been vacant for months. According to the *Opportunity Knocks Nonprofit Retention and Vacancy Report 2010*, over the past year, development positions have stayed vacant longer than any other in nonprofits.[1] The extent of turnover and vacancy in such a critical role—especially in this challenging economic context—undermines the financial viability of our organizations and, ultimately, the services we provide as well as the movements we lead.

We believe that one thing is at the core of the revolving-door problem: expectations—unspoken, unclear, unrealistic, and unmet expectations. We often challenge executive directors who bemoan their own organizations' revolving door with the following questions: "Have you considered that maybe you aren't very good at having a development director?" In other words, executive directors should carefully evaluate the role they expect to play in development, the specific performance expectations they have of a development director, and what they will do every day to nurture a thriving partnership with their development director. Successfully hiring, developing, and retaining a development director starts with setting clear expectations of what the role means and looks like in your organization.

Jeanne Bell, MNA, is the CEO of CompassPoint Nonprofit Services, a nonprofit leadership development organization. **Byron Johnson, CFRE**, is a senior project director at CompassPoint Nonprofit Services.

What Kind of Development Position(s) Do You Need?

Business model, not budget size, dictates when an organization needs to add development staff and

A team-based approach to resource development can be successful.

the kind of development position(s) it requires. An organization with primarily grant and contract funding, for example, may not need a senior development strategist, but rather an effective grant writer to partner with the executive and senior program staff on developing proposals. For this kind of organization, another option is to create a development manager or associate position to handle the administrative aspects of institutional fundraising: maintaining the database, developing the standard proposal attachments, handling acknowledgments, and so forth.

In these scenarios, even a $2 million or $3 million operating budget may not warrant a development director. On the other hand, a $1 million organization that raises most of its operating budget from individuals through mail, Web, events, and a major donor program likely needs the skills and strategy capacity of a development director. In fact, one key indicator of an organization's need for a development director is when it realizes that it has missed out on opportunities because it can no longer effectively manage relationships with its donors and funders.

Increasingly, we have seen success with a team-based approach to resource development. Not only does it develop and leverage the strengths of organizational staff beyond the executive and development positions, but it distributes the work and accountability for building and nurturing relationships and thinking about financing the organization's work over time—which, in our view, are all healthy things to spread within a nonprofit culture. In *Team-Based Fundraising Step by Step*, fundraising expert Mim Carlson argues that "a group with complementary skills can reach far more people, ask for more contributions, and move much faster than any single fundraiser, no matter how expert that one person is."[2]

Beware shopping for a development director when you are hungry—that is, when your organization is in desperate financial condition. The notion that even a great development director can single-handedly pull an organization out of financial ruin is rarely accurate. Sometimes external factors beyond your control are at play, such as the economy or a disconnect with donors and funders. If you cannot get the attention of donors now, you should not just assume that the problem has to do with your lack of a development director. As Carlson warns, "Bringing in a development director to 'save' an organization financially is unfair to the person hired and is a poor use of the nonprofit's resources."

In determining how to staff the development function, it is also important to distinguish between *communications* and *fundraising*. These two efforts are related and need to be well coordinated, but they have key differences. "Communications and fundraising are two sides of the same coin," says nonprofit communications expert Holly Minch.[3] "Both are designed to position the organization as credible and effective. Both rely on the arts of influence and persuasion. Both demand strategic, consistent, diligent effort to be of greatest impact."

But Minch also clearly distinguishes between their aim and process and generally discourages the lumping of functions into titles such as director of communications and development. "I feel for folks in those combo roles, because they've been charged with Mission Impossible. Because fundraising is linked to the organization's survival, of course communications is going to fall to the bottom of the priority list, which, sadly, makes the fundraising portion of their job more difficult. Smart communications build credibility and 'tee up' the ask."

If you decide to hire a senior-level development position, whether for a manager or a director, then it's time to get performance expectations and accountability extremely clear. Based on our experience with hundreds of executive directors and organizations, we offer these eight "great expectations" that we believe every community nonprofit executive should have of herself, her development director, and her organization.

Eight Great Expectations for Nonprofit Executives

Expectation One: Expect the development director you hire to be the development director you hired. If your new development director did not increase individual giving at his prior three jobs, don't expect him to do it for you. More frequently than with any other position, we encounter executive directors who expect their development directors to suddenly sprout new skills, talents, and community connections merely because an organization needs them.

The range of potentially necessary skills and experiences that a development director might bring to his work is broad, from writing skills to special event planning to major donor development to social-media talents. No one can do all or even most of these things well. Before you hire a development director, it's critical to determine the must-have skill set given the primary funding strategies of your organization. Then, of course, ask each candidate and their references for specific examples of success that bear on your primary fundraising strategies.

Expectation Two: Expect to pay well, but ethically. It is clearly a seller's market for experienced development directors with a proven track record of success. So, yes, you have to pay a good market-rate salary to attract and retain a strong development director. In fact, we frequently have to counsel executive directors that until they are willing to bring their own salaries up to market rate, they cannot hire exceptional talent in other positions given the inappropriate ceiling on their own salaries. Expect to offer a competitive salary and—if consistent with the compensation plans of other senior managers—a performance-based bonus.

But you should *not* expect to pay development directors percentage-based compensation. The Association of Fundraising Professionals (AFP) Ethics Committee defines percentage-based compensation as "any compensation that is based on a percentage (sometimes referred to as a commission) of contributions raised." AFP strongly opposes this compensation strategy, arguing that it puts self-gain ahead of mission, damages donor trust, and can encourage self-dealing. "AFP believes that individuals serving a charity for compensation must first accept the principle that charitable purpose, not self-gain, is paramount," the committee wrote in a white paper on professional compensation. "It is our view that if, by definition, private financial benefit cannot inure to the charity, it should not inure to the worker."[4] AFP does not oppose providing bonuses to development directors so long as such bonuses are typical of how you reward other senior managers and are based on annual performance goals rather than on a percentage of contributions raised.

Expectation Three: Expect ramp-up time—but not too much. A classic tension between an executive director and a new development director concerns time and scheduling: how long should it take a new development director to get up to speed? Getting this partnership off to a good start requires clear expectation setting from day one.

You can expect that a new development director can fairly quickly understand and manage fundraising strategies already under way and producing well—within, say, two to three months. The uncertainty comes when you ask a development director to open a new fundraising channel or to significantly expand an existing one. Can you expect a 25 percent increase in corporate sponsorships in a development director's first year on the job? Can you expect to double the response rate on her first holiday mail appeal? The answer is yes only if you develop these targets and their time lines with your development director and are both clear on the expectations to meet them.

Expectation Four: Expect to spend more time fundraising. Once you have hired a strong development director, don't expect to do less fundraising. In most community nonprofits with a mix of individual and institutional donors, executive directors are the primary external face of these organizations.

Typically donors want to talk directly with an executive director, so directors make many of the requests for money. The development director, on the other hand, *directs* fundraising efforts overall. As Kim Klein warns development professionals in *Reliable Fundraising in Unreliable Time*, "If the executive director is uncomfortable asking for money or does not understand the long-term nature of fundraising, your job will vary from difficult to miserable."[5] Through good planning and prospecting, effective development directors create more opportunities for executive directors to fundraise. So if this partnership works properly, expect to spend *more* time fundraising.

Before you hire a development director, it's critical to determine the must-have skill set.

Expect to make early and large investments in a new development director.

Expectation Five: Expect a board to be exactly the board you recruited. If you did not recruit your current board members with a clear understanding of their commitment to and skills in fundraising, hiring a strong development director cannot change that. It is *your* job and the chair's-—not the development director's—to create the expectations for fundraising on your board.

Indeed, during the hiring process, a good development director asks about board engagement to understand who—if anyone—is her partner in fundraising efforts. Certainly, through excellent planning and coordination of effort, an effective development director can and should increase the fundraising impact of your board. But she cannot reset fundamental board expectations for fundraising. Governance expert Jan Masaoka says that simply hiring a development director does not resolve the "cycle of finger pointing" that plagues many board–executive director relationships in fundraising.[6] Instead, a third actor joins in the frustration. Again, an experienced development director may be an effective coach for an executive who wants to shift her board's fundraising culture so long as the executive and board leadership take clear responsibility for doing so.

Expectation Six: Expect to spend money. Beware the new development director who after three weeks on the job says, "I can't raise money if you don't buy me [fill in the blank with expensive software package]." A discussion of the current state of the fundraising infrastructure and planned investments therein should be part of the hiring process. It's critical that before she takes the job, an incoming development director evaluate whether she can be effective with your organization's available resources.

Still, a development director needs a satisfactory budget to develop and maintain effective fundraising strategies and systems. Particularly if an organization has never had a development director or the previous one was not a good systems person, expect to make early and large investments in a new development director. Moreover, recognize that entering a new fundraising channel—say, direct mail or special events—requires initial and ongoing capital investment. Typical investments are software, channel-specific consultants, list rentals, graphic design, and printing.

Expectation Seven: Expect a good plan. An effective development director plans thoroughly and works the plan with discipline. Ask prospective development directors to share their annual development plans from their prior work at nonprofits. These need not be elaborate documents but should indicate that a candidate can conceive of a full year's development efforts; their financial targets; their required expenses; their time line; and their involvement of staff, board, and volunteers. Expect your development director to work well with your finance director during the annual budgeting process so that the development plan and the budget work in tandem to meet your organization's financial needs.

Expectation Eight: Expect ROI. Clearly the investment in a strong development director should produce an excellent return. But in this case, how do we define return on investment? First, in your calculations of ROI, include more than annual amounts raised. While dollars are the most obvious metric, also consider the value added by a good development director in training and mentoring less-experienced fundraisers on staff and board; in setting up systems that effectively track, thank, and engage donors; and in many cases, in serving on the organization's senior-management team. In short, don't hire and evaluate a development director as though her only value is represented by total dollars raised.

Still, a development director's job is to direct fundraising efforts, and the theory is that, with someone dedicated to this assignment, your organization is going to raise more money than it otherwise would, and in a more efficient and sophisticated manner. It is critical that upon hire, and then annually, you work with the development director to develop and monitor detailed fundraising performance metrics. These metrics should flow from the aforementioned development plan and annual budget. You'll need a budget and success metrics for each fundraising channel (e.g., your newsletter, your holiday appeal, your foundation grantwriting, and so on). Note that each fundraising channel has a unique ROI. Direct mail may return much less per dollar spent than grantwriting, for instance. And further, the recession and shifts in giving patterns affect each channel differently.

Understanding your fundraising investment and ROI is a critical executive responsibility. The executive director and development director who work together to make meaning of their development data will be a more focused and effective fundraising team.

In evaluating fundraising performance, the Fundraising Effectiveness Survey by AFP and the Urban Institute goes deeper than dollars raised. In the *2010 Fundraising Effectiveness Survey Report*, the report argues, "To understand what is really happening in a way that is useful for planning and budgeting, it is necessary to analyze both the fundraising *gains* and the fundraising *losses*—in dollars and donors—from one year to the next."[7] [For more on this methodology, see "Measuring Fundraising Effectiveness," at right.]

Whichever metrics you choose together, the critical point is that you and the development director share an understanding of what success looks like and the roles each of you has in getting there. Without clear, measurable targets the ROI on your investment in a development director can never be accurately calculated.

On the Road to Success

Finding and keeping a good development director is not easy. But effective partnerships between executive directors and development directors come about when both sides take responsibility for making the partnership work. Without clear expectations and directives, a new development director can easily fall short of an organization's needs and expectations for fundraising.

But armed with clear goals, agreed-upon time frames for those goals, and an understanding of how an executive director wants these goals achieved, an incoming development director can get up to speed and deliver on the need that brought her to the position in the first place: the need for solid fundraising. For executive directors, clear expectations are the key to great expectations.

Measuring Fundraising Effectiveness*

	Total gift dollars	Total number of donors
Gains	• Dollars gained from new donors in current year • Dollars gained from recaptured donors (former donors who did not give in the previous year) • Dollars gained from upgraded donors (donors who increased their gift from previous year)	• The number of new donors gained in the current year • The number of recaptured donors gained (former donors who did not give in the previous year) • The number of upgraded donors (donors who increased their gift from the previous year)
Same	• Dollars from donors who gave the same amount as in previous year	• The number of donors who gave the same amount as in the previous year
Losses	• Dollars lost from downgraded donors (donors who gave less in the current year than in the previous year) • Dollars lost from lapsed new donors (new donors from the previous year who did not give in the current year) • Dollars lost from lapsed repeat donors (repeat donors in previous year who did not give in current year)	• The number of downgraded donors (donors who gave less in the current year than in the previous year) • The number of lapsed new donors (new donors in the previous year who did not give in the current year) • The number of lapsed repeat donors (repeat donors in the previous year who did not give in the current year)

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Without clear expectations, a new development director can easily fall short.

Endnotes

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The *Myths* and the *Realities* of the *Commercial Gift Funds*

by Rick Cohen

If nonprofits better understand commercial gift funds, can they get on the radar screens of these donors?

Fidelity, Vanguard, Schwab, T. Rowe Price: the list of financial services firms managing substantial amounts of charitable assets in the form of donor-advised funds (DAFs) is short but tantalizing. Nonprofits across the nation wonder, what's the secret code, the handshake, the password that will get an organization a chance at the billions of dollars in DAFs managed by these firms?

Donor-advised funds are special accounts created with donations of cash, stock, or other assets. Donors receive an immediate tax deduction for assets donated to these accounts, which are typically managed by financial companies, community foundations, and some independent charities. Funds are distributed from the accounts based on donors' recommendations of specific charities or causes. Although community foundations have offered donor-advised fund services for many years, the involvement of national financial services firms in this field is less than two decades old. In that short time, these large "commercial gift funds" have come to dominate the DAF industry.

During their relatively brief existence, the two-dozen corporate-affiliated national donor-advised funds have grown to account for more than $2.5 billion in charitable grantmaking (roughly half of which is attributable to Fidelity), compared with approximately $4.5 billion in grants from more than 700 community foundations. The top three commercial funds, Fidelity, Vanguard, and Schwab, are much larger than the others. Since its creation in 1991, the Fidelity Charitable Gift Fund has assisted some 56,000 donors in distributing $9.5 billion in grants to 130,000 nonprofit organizations. Because of this phenomenal growth curve, in 2008 this fund became the nation's third largest public charity in terms of private contributions. The Vanguard and Schwab funds are also huge, both numbering among the top 100 largest public charities.

The vast majority of nonprofits would do almost anything to reach out to the hundreds of thousands of donors represented by these firms. Unfortunately, we haven't yet found the philanthropic version of an abracadabra or a sim sim sala bim that will unlock the commercial gift fund vaults. Should nonprofits simply write off these billions of dollars as inaccessible? Or would understanding the myths and realities of the commercial gift funds help nonprofits craft strategies to get on the radar screens of these donors?

Rick Cohen is *NPQ*'s national correspondent.

Eight Commercial Gift Fund Myths

Myth One: *After Fidelity (and maybe Vanguard and Schwab), the rest of the corporate gift funds are basically minor players.*

Charitable gift funds caught the foundation world by surprise.

Not long after the creation of the Fidelity Charitable Gift Fund in 1991, two of Fidelity's major competitors in the investment world—Vanguard and Charles Schwab—established their own programs to manage investors' charitable giving. These funds caught the foundation world, especially community foundations, by surprise. But one ought to have expected that these enormously creative, energetic, and profitable investment firms would spot a market opportunity in the expanding world of charitable giving during the 1990s.

While Fidelity, Vanguard, and Schwab are huge and have immediate name recognition in philanthropy, well-known mutual fund companies and commercial banks—including Goldman Sachs, Citigroup, and Bank of America—sponsor some 20 other funds. In addition, there are specialized firms, such as the Calvert Social Investment Foundation, which restricts its investment options to socially responsible corporations, funds, and projects, and the National Philanthropic Trust, which along with its own gift fund provides "private label" management services to other corporations.

Nonetheless, Fidelity, Schwab, and Vanguard dwarf the donor-advised funds of their competitors. Why are the big three so far ahead of the competition? Not only were they the first out of the gate, but also they made significant investments in the capacity to give donors the most rapid and flexible methods for creating donor-advised funds and directing gifts to charities.

A donor who establishes a fund at Fidelity, Vanguard, or Schwab can invest, donate, replenish accounts, designate nonprofit grant recipients, and get accurate tax information, all online. The investor-donor can also choose to place charitable funds in short- or long-term investments or in conservative or aggressive funds. From early on, these commercial gift funds were designed to make account management easy and straightforward for donors.

What's more, these services are cheap. While a typical donor could potentially spend several percentage points in fees on funds invested through community foundations or other DAF managers, it costs comparatively little for donors to invest through one of the big three. Even now, with community foundations having done their best to reduce their transaction costs, fees at the big commercial funds are frequently less than 1 percent, compared to 1 percent to 2 percent at many community foundations, and more than that at other DAF managers. For funders and their promoters, less money spent on administrative costs means more money available for recipient nonprofits.

Myth Two: *Commercial gift funds sit on money, enabling donors to warehouse their charitable dollars. Whether at universities, community foundations, or commercial funds, donor-advised funds face no foundation-like payout requirements.*

Critics have long suspected that donors to DAFs get a full charitable deduction at the outset, but that the bulk of the funds sits in accounts and doesn't move. If DAFs were subject to a 5 percent foundation payout requirement, these critics argue, it would presumably start the DAF payout snowball rolling.

The truth is that payout rates of donor-advised funds at commercial gift funds and at community foundations far exceed foundation payouts, which rarely surpass the 5 percent required by law. Between 2003 and 2007, Fidelity's payout was 23 percent, Calvert's 14 percent, Schwab's around 20 percent, and Vanguard's 21 percent, compared with an average payout of community foundations surveyed by the Council on Foundations (COF) of 13.1 percent and a median payout of 9 percent.

Although exempt from mandatory payout rules that apply to foundations, most charitable gift funds voluntarily maintain policies that require a composite or cumulative 5 percent payout. Even at those firms that do not establish fund-specific payout levels, the corporate sponsors will monitor accounts to determine whether individual DAFs' low activity levels might contribute to the funds' falling below the 5 percent payout threshold.

Observers expect that in the future a DAF payout requirement will get congressional attention. Although mandatory DAF payouts were considered and dismissed in the run-up to the Pension Protection Act of 2006 (the last major national legislation to touch on DAFs), it is logical to expect that the payout issue will eventually be revisited. In light of recent behavior, however, corporate funds should have no trouble meeting a mandated threshold.

Myth Three: *Financial firms offer only donor-advised funds and nothing else.*

While DAFs are without a doubt the primary charitable offering at investment firms, they are only one tool among several. Other options include charitable remainder trusts (CRTs), charitable lead trusts, and pooled-income funds.

Still, the importance of commercial DAFs cannot be denied. They have transformed financial-service firms into significant players in philanthropy while occupying an important market niche. Donor-advised funds have been described as "the poor donor's foundation," enabling an individual donor, who may not have billions or millions of dollars, to establish a personal charitable-giving vehicle to support his or her charitable priorities and beneficiaries.

Myth Four: *If you've seen one commercial gift fund, you've seen them all.*

Not quite. Commercial funds have explored several market-defining distinctions with varying degrees of success. The challenge is to make these programmatic distinctions work without undoing their benefit for donor-investors: that is, combining low administrative and investment costs with speed and simplicity. Commercial gift funds vary in their features and benefits and offer a range of investment alternatives, minimum fund sizes (for example, $5,000 at Fidelity and Schwab, $25,000 at Vanguard), and disbursement policies.

Commercial funds have also developed specialized products and functions to appeal to donors who want additional giving options. Fidelity's Gift4Giving program, for example, allows investors with charitable accounts to designate gifts—in amounts as small as $50—to other individuals who can then direct the funds to the IRS-qualified public charities of their choice. This service gives a donor a way to involve friends and family members in charitable giving while introducing Gift4Giving recipients to Fidelity's advanced DAF technology.

Calvert's large array of socially responsible investments is an important mechanism in maximizing the social benefits of otherwise passive investments of charitable monies. Schwab has received significant positive publicity for its variation on socially responsible investing, the Double Give Program, which enables donors to designate up to 10 percent of their charitable-gift account balance to guarantee microfinance loans in the developing world. The first phase of the program sought to generate $10 million in guarantees for more than 100,000 microloans through the Grameen Foundation.

Community foundations routinely solicit donations to unrestricted funds managed by professional foundation staff. While commercial funds do not specifically promote donations to unrestricted funds, most offer this option to donors. For example, at Schwab, donors can pick the "Philanthropy Fund," Schwab Charitable's unrestricted giving account that supports not only unrestricted grants made by Schwab's trustees but also research and educational programs.

Myth Five: *Corporate gift funds are bad (because they are corporate); community foundations are good (because they are not corporate and are managed by knowledgeable local professionals).*

This myth was the original impetus for the community-foundation critique of commercial gift funds. How could the IRS allow these corporate behemoths to be recognized as charities? "They should never have received IRS approval in the first place," one critic says. "They have succeeded in having a tax exemption for investing in their for-profit accounts. . . . Why should taxpayers be assisting the for-profit Fidelity Investments program?"

The foundation world has protested to the IRS and even litigated in some instances. It has

While they are investment firms' primary charitable offering, donor-advised funds are only one tool among several.

Is there something inherently impure about commercial gift funds?

also tried to ostracize the commercial gift funds. The Council on Foundations offers membership status to corporate foundations sponsored by some of the world's most widely criticized corporations, such as BP and Exxon Mobil, while barring financial firms that administer donor-advised funds. In an odd anomaly, this means that the Fidelity and Schwab foundations are COF members while their much larger charitable gift fund affiliates are not.

What explains the opposition to commercial gift funds? Is there really something inherently impure about them? A better explanation for the hostility is that the commercial gift funds have grabbed significant market share from the more than 700 community foundations because of lower operating costs and more powerful technological platforms. Still, that doesn't explain why the Tulsa Community Foundation (with $3.7 billion in assets) and the New York Community Trust (with $1.5 billion in assets) cannot accept the Fidelity Charitable Gift Fund (with nearly $5 billion in assets) as a peer in institutional philanthropy.

While it is true that for-profit investment houses have created or are affiliated with these gift funds, they are established as "independent public charities," and in interviews, these funds' managers adamantly underscore that independence. "A majority of the Program's Trustees are independent of Vanguard," the firm's Web site notes. "Although Vanguard provides certain investment management and administrative services to the Program through a service agreement, the Vanguard Charitable Endowment Program is not a program or an activity of Vanguard."

The commercial gift funds do appear to maintain autonomy by purchasing administrative support and accessing investment options from sponsoring financial firms in arm's-length transactions (paid for through the fees charged to donors), as opposed to simply operating as divisions or departments of Fidelity, Vanguard, or Schwab. In some cases, the sponsoring firms financed the creation of online donor-advised fund platforms and other elements of the commercial gift funds' business models, investments that are now being repaid over time.

Overall, the sponsoring financial firms do not appear to control the commercial gift funds in a way that might jeopardize their 501(c)(3) charitable status. To be sure, corporate sponsors have a strong business rationale for establishing the charitable gift funds: by leveraging their sophisticated online money-management platforms, financial firms can offer a "one-stop shop" where investors can also take care of their charitable giving. Many of the firms' baby-boomer customers are already comfortable with managing their portfolios online, and they are attracted by the notion of online charitable giving.

The major community foundation complaint about the commercial funds is that the IRS allowed for-profit investment firms to create 501(c)(3) public charities with the mission of raising and distributing funds for charitable projects, essentially a commercialization or perhaps a commodification of the core charitable function of community foundations. Commercial gift fund supporters are not shy about reminding critics that commercial banks and trust companies established many community foundations. For some time, these foundations operated with as much, if not more, functional integration with their bank sponsors than commercially affiliated funds have with their mutual-fund sponsors. The charge that commercial gift funds are somehow less charitably pure than community foundations, particularly in an era of significant business involvement in charity and philanthropy, is less persuasive now than it was when Fidelity's gift fund first came into being and received IRS approval.

Observers suggest that in time, strident opposition to community foundations will be overcome because of increasing acceptance that commercial funds have matured, are growing in market share, and are filling—as one Midwestern community foundation CEO put it—"a [market] niche of price sensitivity . . . giving donors a transactional product for a very, very low price."

Myth Six: *Because of their convenience and low cost, corporate gift funds have boosted the total amount of charitable giving.*

Has the advent of commercial gift funds raised overall charitable giving (historically, charitable giving in the United States has amounted to roughly 2.0 percent to 2.1 percent of gross domestic product)? It is impossible to answer that question with absolute confidence.

According to one philanthropic expert, "The percentage of Americans who give stays pretty steady over time, and the percentage of wealth [devoted to charitable giving] stays pretty steady over time. [So] it's possible that there's nothing [about the commercial gift funds] that has expanded the pie." On the other hand, Fidelity Charitable Gift Fund CEO Sarah Libbey told *NPQ* that more than half the firm's current donors had zero funds in accounts on the firm's investment side.

External observers confirm that given its advertising resources, Fidelity has probably attracted donors that use its services exclusively for charitable giving. This suggests that—at least in Fidelity's case—the firm attracts people through the Charitable Gift Fund's own portal rather than simply mining current Fidelity investors for their philanthropy business. Libbey also noted that based on surveys, 70 percent of Fidelity donors report that their personal giving has increased as a result of maintaining a charitable fund at Fidelity.

But these increases could simply reflect a reallocation of charitable giving from other channels, such as donors moving their DAFs from community foundations or other sponsors to Fidelity. One donor, for example, recalls his experience in establishing a charitable account at Vanguard, noting that it would have taken longer at the community foundation where he formerly had his DAF, taking three to five days as opposed to a quick online transaction, and would have been more expensive, costing 100 to 150 basis points (1 percent to 1.5 percent), while Vanguard's administrative fee was only 30 to 40 basis points (0.3 percent to 0.4 percent). Similarly, some small foundations have disbanded and shifted their assets into donor-advised funds, but both examples amount to shifting charitable giving from one venue to another rather than generating new dollars.

Has the advent of commercial gift funds raised overall charitable giving?

Myth Seven: *Corporate gift funds have put a nail in the coffin of community foundations.*

Unlike community foundations, commercially affiliated charitable gift funds are primarily transactional. There is little interest in having the funds "sit" in accounts rather than be disbursed quickly to charities.

Community foundations, on the other hand, are fundamentally community institutions, often positioned as community problem solvers, deploying philanthropic capital and knowledgeable staff to address community issues. As a result, community foundations often encourage donors to make "unrestricted" donations that are available to the foundation to use as it sees fit rather than having to create individual funds that must follow donors' charity-specific recommendations. Frequently, community foundations solicit donations to "field of interest" funds—devoted to programs for youth, women's issues, affordable housing, and so on—in which foundation staff then make grant decisions. That sort of programming requires a level of staffing that makes community foundation operating costs higher than those of commercial charitable gift funds.

Do commercial gift funds add distinctive charitable or philanthropic value in the distribution patterns of their grantmaking? Critics of the commercial funds and of donor-advised funds in general suggest that DAF-supported grantmaking is essentially equivalent to individual charitable giving, except that it has been made simpler, faster, and cheaper by these big firms.

For example, the Fidelity Charitable Gift Fund began processing grant dollars for Haitian earthquake relief activities just two hours after the earthquake in Port-au-Prince, with a total of more than $13 million donated for earthquake relief as of March 2010. Fidelity's speed in making Haitian relief grants underscores what donors want from commercially affiliated funds: the capability to respond quickly to donors' funding directives.

According to one community foundation CEO, the commercial funds' technology and operational efficiency have compelled changes in the community foundation world. According to one philanthropic adviser, "Many (community) foundations have since caught up, made it easy to do things, calling someone on an 800 number, processing checks and grants more quickly."

While the community foundations cannot compete with the commercially affiliated funds on costs and investment options, particularly because of the commercial firms' huge scale, they can offer an important charitable-giving resource to donors who have specific community interests. The end result may be an improvement in community foundation operations. These organizations can leverage their competitive advantage with donors interested in geographically specific charitable investments and field-of-interest charitable concerns, while commercially affiliated funds attract charitable giving that is less geographically constrained.

Donors who want a more tactile charitable experience can still go to community foundations.

Myth Eight: *If you know whom to call at Fidelity, Schwab, and Vanguard, you too can get in on billions in charitable giving through their DAFs.*

If only that were true. The problem is that these firms manage funds for donors who, for the most part, already know whom they want to give to. As one philanthropic adviser notes, "Most Americans are local givers and they're not looking for any—or needing any—advice and direction, and thus for them, whatever way is cheapest or most convenient is going to work for them." He adds, "The commercial providers [have provided] the equivalent of a philanthropic checking account. . . . For most of the people who use the donor-advised funds of the big three, their experience is only about convenience and cost. It's a commodity, and they're no more interested in an experience with their DAF than with their checking account."

For those donors who want a more tactile charitable experience, they can still go to community foundations with geographically specific interest areas, or choose specialized funds dedicated to specific issues and topics such as women's issues, religion, or social change. Donors might be willing to pay more for the more personalized service that community foundations offer.

Evidence increasingly suggests, however, that most small and midsized donors are not interested in paying a premium for advice. One of the nation's philanthropic experts contends that "what Fidelity proved in 1991 is that [many] donors in fact don't want any advice. [Fidelity] served a no-advice product, and they hit it out of the ballpark."

That said, the commercially affiliated funds do offer their customers links to the standard sources of information on public charities. For example, on Vanguard's Web site the Education and Resources for Donors button provides links to the Council on Foundations, the United Way of America, GuideStar, the Better Business Bureau's Wise Giving Alliance, and the Independent Charities of America. Fidelity gives its donors access to GuideStar Analyst Reports covering some 200,000 charities with financial and narrative analyses, including benchmark measures for comparisons among nonprofits in specific groups and subsectors. The message from the commercial funds is that donors can avail themselves of these free services, but the funds are encouraging the donors to do what experts tell all donors: do their own research on the charities they might support.

Fidelity, Vanguard, and other firms maintain general funds consisting of charitable donations from their customers, as well as funds left in accounts abandoned without a designated successor, and nonprofits can certainly attempt to approach them. But there is no magic incantation that will give access to the commercial firms' donor-advised funds. To reach these affluent but not superwealthy donors, nonprofits should do what they always do: be visible, do outreach, connect to volunteers, and develop smart major-gift fundraising efforts that target higher-net-worth donors. Once recruited, these major individual donors are likely to make contributions from donor-advised funds located at Fidelity, Vanguard, Schwab, T. Rowe Price, the Calvert Social Investment Fund, the National Philanthropic Trust, and the other major financial firms.

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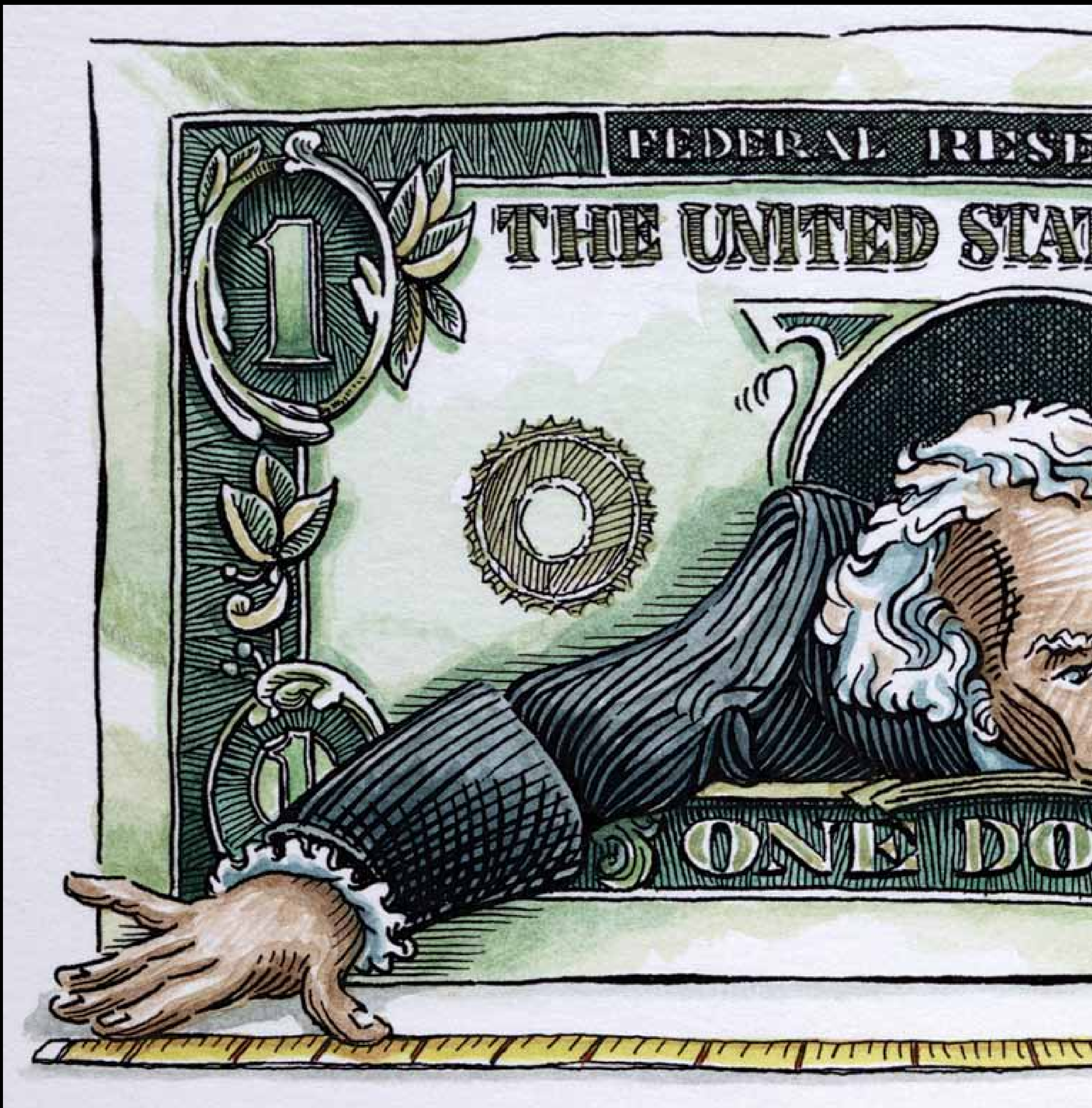
To reach affluent donors, nonprofits should continue to do what they always do.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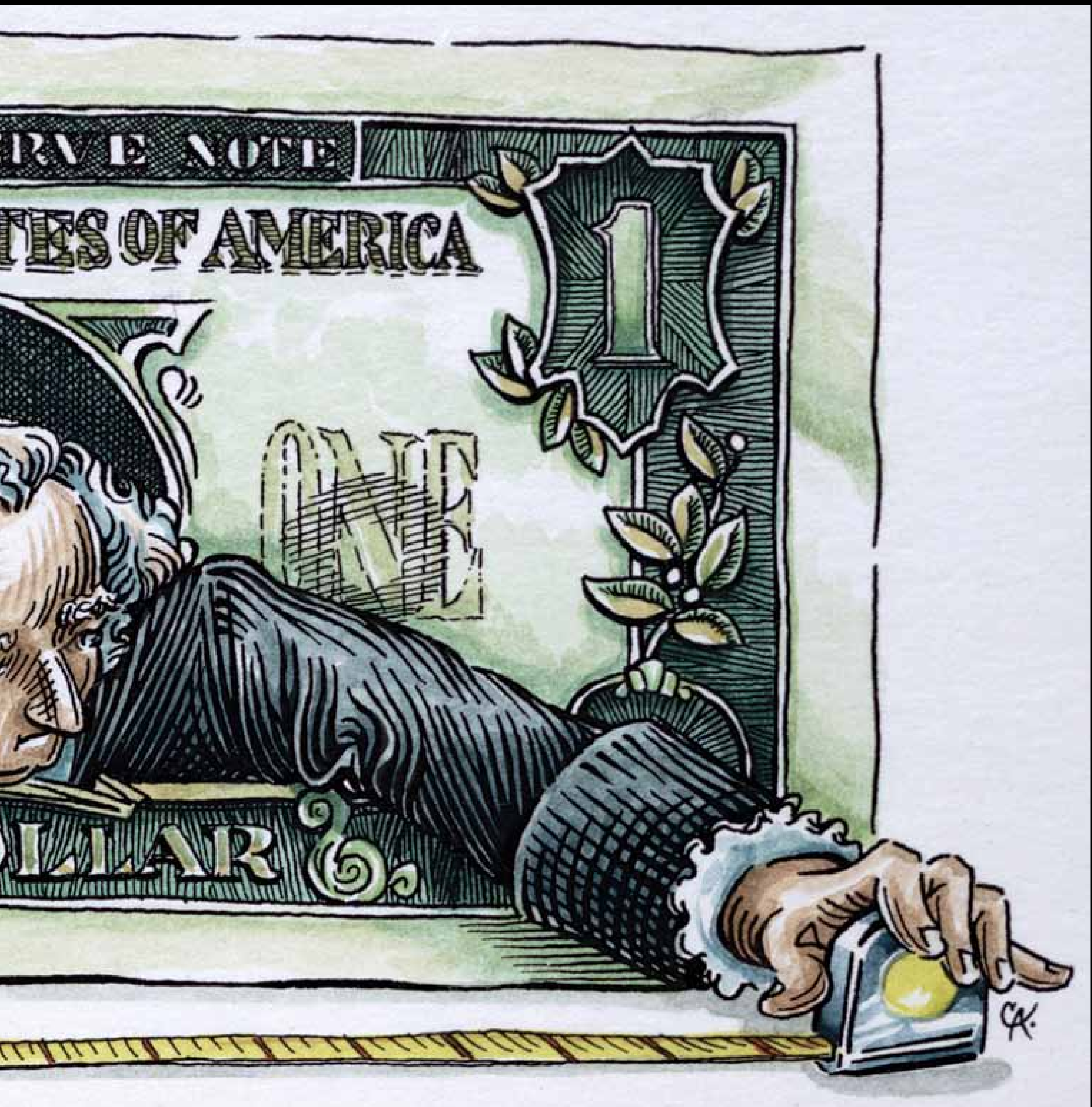
What *Gives*?

by Melissa S. Brown



For U.S. nonprofit fundraisers, the release of the *Giving USA* numbers is a much-anticipated annual event. Published each June, this roundup of giving during the prior year offers a sense of the trends in philanthropy. The overview helps organizations understand their revenue environment, at least as far as philanthropic dollars are concerned.

Foundation giving as a share of total giving has grown.

But *Giving USA* often gets questions on how we derive our numbers. This article lays out our process and addresses several frequently asked questions and new developments. While portions of this discussion may be of interest only to fundraising wonks and academics, we get these questions often. Since so many organizations depend on our projections for guidance, we want to provide you with the details on how we arrive at these numbers.

First, here are some basic facts about how *Giving USA* treats the data:

Giving USA includes gifts in-kind and cash gifts from individuals, corporations, and estates, plus foundation grants. Because it counts only philanthropic gifts, it doesn't include amounts that United Ways distribute or government grants or contracts, although these dollar amounts are also important to charity budgets.

Giving USA develops and then revises estimates as new data is released by government agencies and other sources. The main data source is returns filed with the IRS, but we also use survey data for some household giving as well as publicly available information about giving to religion.

Money Given to and by Foundations

Giving USA uses the Foundation Center's estimates for foundation grantmaking. But we move the Foundation Center's estimate for *corporate* foundation giving to corporate giving, and we report private, community, and operating foundation results in the foundations "pie slice."

As more foundations form and as donations from bequests and living donors are added to existing foundations, foundation giving as a share of the sources of giving has grown.

Melissa S. Brown has been the managing editor of *Giving USA* since 2001.

In the foundation world, another important change has taken place. An increasing percentage of foundations are spending down their total assets, making grants from assets (or previously donated money), not just from investment earnings (new money for philanthropy). *Giving USA* works with the Foundation Center to find reliable methods for adjusting for this, especially as we expect the trend to accelerate with the new Giving Pledge announced in mid-2010 by Warren Buffett, Bill and Melinda Gates, and at least 40 of their peers.

Historically, foundations have made grants from interest earned on invested funds, so *Giving USA* reports foundation grants as "new money" for charitable organizations. With developments such as the recent Giving Pledge, an increase in the number of foundations that are spending down their assets, and other shifts in recent years, *Giving USA* and the Foundation Center have established new methods of tracking foundation giving to ensure that we avoid double counting.

Where data is available, *Giving USA* avoids double counting. Warren Buffett's annual gift to the Bill & Melinda Gates Foundation, for example, is not counted as an individual gift to a foundation because Buffett stipulates that the money must be granted out annually instead of invested for future grantmaking. *Giving USA* tracks the Gates Foundation grant amount that includes funds distributed from Buffett's contribution.

Where Does It All Go?

Giving USA tracks 10 types of recipients, or subsectors, and has an "unallocated" section, which includes allowed deductions that a charity does not report as revenue, such as license plate fees, volunteer miles, and gifts to public schools. Religion receives the largest share of the total, with one-third of the amount contributed.

Over time, *Giving USA* has added types of recipient charities to reflect changing priorities. In 1987, for example, international affairs organizations and environment- and animal-related organizations began to be tracked separately from public-society benefit. These groups are high-growth subsectors, whereas the arts and religion have grown comparatively slowly. The newest addition is foundation grants to individuals, which *Giving USA* began reporting in 2009. This category amount is based almost entirely on the market value of medications given by patient assistance foundations created by pharmaceutical manufacturers.

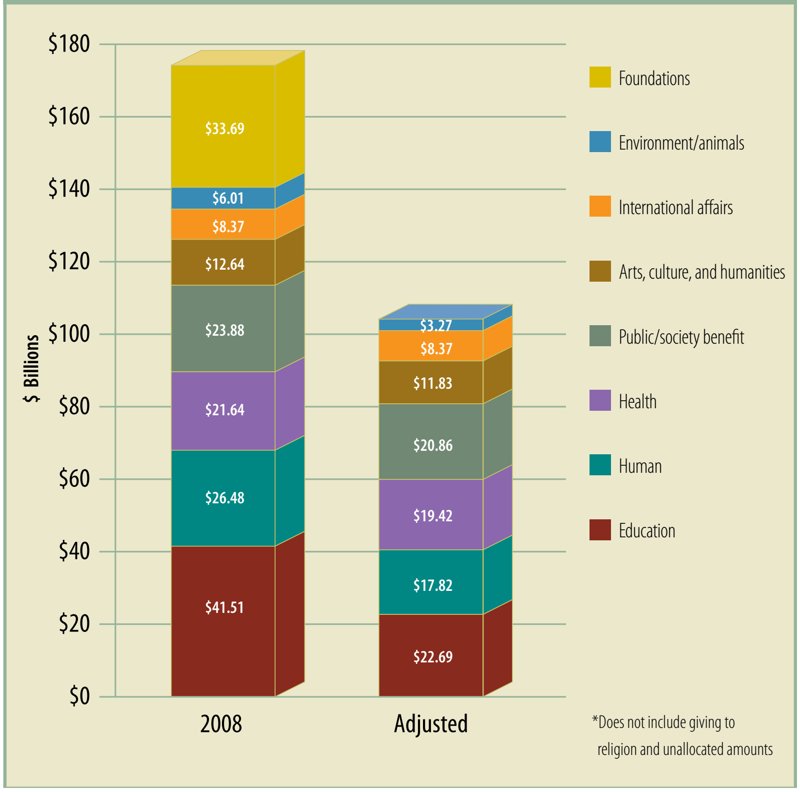
Giving USA uses IRS Form 990 data for receipts by type of charity. It can take up to two years for all IRS Form 990s to be available. So every two years, as data is released, *Giving USA* updates this information. We include estimates for organizations that are not required to file a Form 990 or Form 990-EZ.

Just as we review what is included, we also review methods for measuring giving to each subsector. With regular filing and release of IRS Form 990 data, we can now apply the same principles to estimate the types of recipients as we do to estimate the sources of giving. This makes for a long-awaited change in methods. In the past, *Giving USA* sent out a survey of organizations, which irritated at least some charities and was costly.

Because of a partnership with the National Center for Charitable Statistics at the Urban Institute, we no longer need to survey. Instead we use the historical record of IRS Form 990 data as filed by charitable organizations to estimate giving before the IRS data is available. We also supplement this data with other data sources. *Giving USA* also estimates receipts by small organizations that are not required to file a 990 because their revenue is less than the filing threshold.

But congregations and the governing bodies of religious groups (Catholic diocese, Lutheran synod, Presbyterian presbytery, Baptist association or convention, etc.) do not have to file 990s (although some choose to). So to estimate giving to religion, *Giving USA* tested three methods that came within 5 percent of one another. One method considers household giving to religious organizations, as found by the Center on Philanthropy Panel Study research project. Another method uses reported amounts received by about 120 religious organizations that share information publicly. The third approach uses annual changes from those 120 groups applied to a baseline year in *Giving USA*. Currently we use the third method because it includes donations from all sources.

Figure 1: Estimated 2008 giving by subsector and adjusted amounts to remove documented giving to endowments, capital purposes, and in-kind*



Data from *Giving USA*, Council for Aid to Education, Foundation Center, Association for Healthcare Philanthropy

Individual giving is consistently three-quarters or more of total giving.

When we count giving to religion or another subsector, we are interested in "new money" charitable contributions—not program service fees, government grants or contracts, or transfers from related organizations. In essence, *Giving USA* records the amounts that organizations receive that correspond to individual, corporate, and estate deduction levels—even if these donors do not deduct donations as charitable gifts—and to what foundations grant.

This approach works because the IRS Form 990 defines contributions nearly the same way that *Giving USA* views them: gifts, foundation grants, bequests, and corporate donations, including in-kind. In the future, we will watch and review some areas. *Giving USA*, for example, would like to remove gifts that charities give to other charities from its estimates. But the IRS Form 990 includes them as a contribution and there is no other data source. It would also help to show foundation grants made directly to recipients in other countries, which the Foundation Center reports after it analyzes grants made. For now, international grants are included in the "unallocated" section.

When income goes up, giving goes up in a fairly predictable way.

Giving Sources

Since *Giving USA* began in 1956, it has tracked the four sources of giving: individuals, bequests, corporations, and foundations. And individual giving has consistently been three-quarters or more of the total. We know this because the IRS has released regular tax return data about giving by each of the four sources we track.

Giving USA measures items that the tax code permits donors to deduct on their tax returns. Cash gifts to religious organizations, registered charities, or governmental agencies and in-kind donations (whether of household goods, real estate, or personal property such as artwork or gemstones) all count.

If you itemize deductions on your taxes, you know the range of what's included. As long as you keep good records, you can deduct an amount for mileage accrued in your work as a volunteer for a government or charity (including a congregation). If you pay a "fee" to the state to have a license plate that is tied to a state-run fund benefiting a charitable purpose (improving schools, preventing child abuse, an alma mater, etc.), you can take a charitable deduction. If you give to a public school, that counts, as does the money a gardener spends on soil, seeds, and peat pots for starting tomatoes and peppers for a nearby community garden, as long as it is run by a registered charity or government agency. *Giving USA* counts all these items as gifts.

Donated time can't be deducted, nor, with some exceptions, can gifts made to nongovernmental organizations that are *not* registered as charities. So, when my sister-in-law pays her union dues or when my husband contributes old computer equipment to a startup urban tutoring group that hasn't registered yet, these gifts are not deductible. The share of a gala ticket price that represents the market value of the meal is not deductible; only a donated amount in excess of this market value can count as a gift.

Not all donors itemize deductions; and not all donors (i.e., estates) are required to file tax returns. So, to ensure that giving by these individuals and estates gets counted, *Giving USA* estimates their giving and adds it to the IRS data for individuals and bequests. The estimate for non-itemizing households is based on an 8,000-household survey conducted every two years by the Center on Philanthropy at Indiana University in conjunction with the Panel Study of Income Dynamics. In a typical year, about 70 percent of households do not itemize deductions, and for 2009, *Giving USA* estimates that non-itemizing households gave an average $654 to charity. We use other survey data as part of the estimate for estates below the IRS filing threshold.

Data Estimates

So, you ask, if *Giving USA* relies on tax data, how do we create estimates in June for the year that just ended? There isn't enough time for the IRS to analyze tax returns by June. You are right—we do not know yet what was claimed on 2009 tax returns. Instead, we use history as our guide.

Giving USA uses an established process that has been developed, tested, and reviewed. Each year two analysts independently follow the same process using the same data and compare results. When their results match, the 30-member Advisory Council on Methodology comprising respected economists and philanthropy scholars reviews the findings to ensure that the process was done correctly and to discuss the implications of the year's results.

Giving USA's process relies on historical IRS data to develop the estimates for both pie charts: the sources of giving and the uses (subsectors, or types of recipient) categories. The value estimates are derived by looking at the long-term relationship between giving and economic changes. So, for example, when personal income increases, we can project that giving will increase. Giving won't necessarily increase as quickly as income, and countervailing forces such as stock market performance and tax rates may depress giving numbers. But in general, giving goes up in a fairly predictable way when income goes up, when the stock market goes up, or when tax rates increase.

The key takeaway is that, in any given year, fundraising observers may find it helpful to monitor the traditional factors known to influence giving: personal income at the Bureau of Economic Analysis (see www.bea.gov, which makes monthly announcements), the monthly close of the Standard & Poor's 500, and changes in personal tax rates. In general, higher taxes mean higher giving for deductible gifts.

In a year or two, when tax data is released, estimates from *Giving USA* and others will be evaluated. Because we keep long-term trend information, *Giving USA* revises its estimates to reflect the IRS data, and we revise our methods periodically (which we will do for the 2011 edition) to see whether changes are needed. In 2001, for example, we tested whether the Consumer Confidence Index was related to changes in giving. At that time, it was not. With several more years of giving data aggregated since that time and dramatic changes in our economy, we might find in this year's test that measures on the Consumer Confidence Index can anticipate what people claim as itemized charitable deductions on tax returns.

Gift Availability for the "Average Charity"

One of *Giving USA*'s goals is to provide information that can help nonprofit organizations understand where the charity "marketplace" is most active. Over the past few months, many people have asked, "How much money is there *really* for our type of charity?" In an early 2011 issue of its *Spotlight* newsletter, *Giving USA* will tackle this topic. We will review the allocation by type of recipient after we remove gifts that are restricted in purpose (endowment) or type of recipient (giving to foundations) and, thus, are not available for operating expenses or other current needs. Where data is available, we will also adjust for in-kind donations.

In 2008, gifts to foundations were $33.7 billion, for example, which at the time of this writing is the most recent year with a complete estimate. In the future, these foundations will make grants to benefit charities, but even in 2009, little of this money reached organizations that meet societal needs. In addition, in 2008, $14.5 billion went for capital purposes (buildings and endowments) at higher-educational institutions and about $400 million went to endowment funds in healthcare organizations. In the long run, endowment funds help sustain important activities. But these monies are not available now to keep the lights on and the doors open.

On another note, *Giving USA* reports all charitable contributions without considering the purpose of the gift. After removing gifts to religion and restricted gifts, further analysis shows that the amount initially available to "average secular charities" is not $303 billion, but closer to $150 billion.

If you exclude religion giving from consideration and the endowment, capital, and in-kind gifts that can be documented from individuals and corporations, *Giving USA* estimates that in 2008, there was just more than $100 billion distributed in cash and securities to organizations in the other subsectors, from education and human services to international affairs and environment/animals (see figure 1 on page 41). Of that amount, about $4 billion went to United Way (in public-society benefit) and was then allocated to other kinds of charities—largely human services, health, and education programs.

Giving Trends for Organizational Planning

The bottom line is that *Giving USA* uses reliable and verifiable methods to provide trend data and annual information to educate your board and staff; to draw on in your communications and planning; and to consult to find potential opportunities.

Tracking trends and watching for opportunities are part of the challenges and joys of nonprofit fundraising. *Giving USA* is a handy guide to shifting priorities in the nonprofit sector. We will always strive to provide the timely and useful knowledge about charitable giving that has characterized *Giving USA* for more than 55 years.

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The Changing Face *of* Workplace Giving

by John Coy

Until the early 1990s, workplace giving was synonymous with the United Way.

Charitable giving in the workplace is an important part of the corporate nonprofit relationship, but the traditional payroll deduction, the United Way–directed giving model, has not kept pace with the overall growth of philanthropy in America.

According to estimates, slightly more than $2 billion comes from the traditional-style payroll deduction workplace-giving campaign.

From the nonprofit's perspective, workplace giving continues to be a high-yield, low-cost method of fundraising, a renewable and sustainable source of funds as long as the company or employer provides access to the workplace as a fundraising vehicle to connect employees with charities.

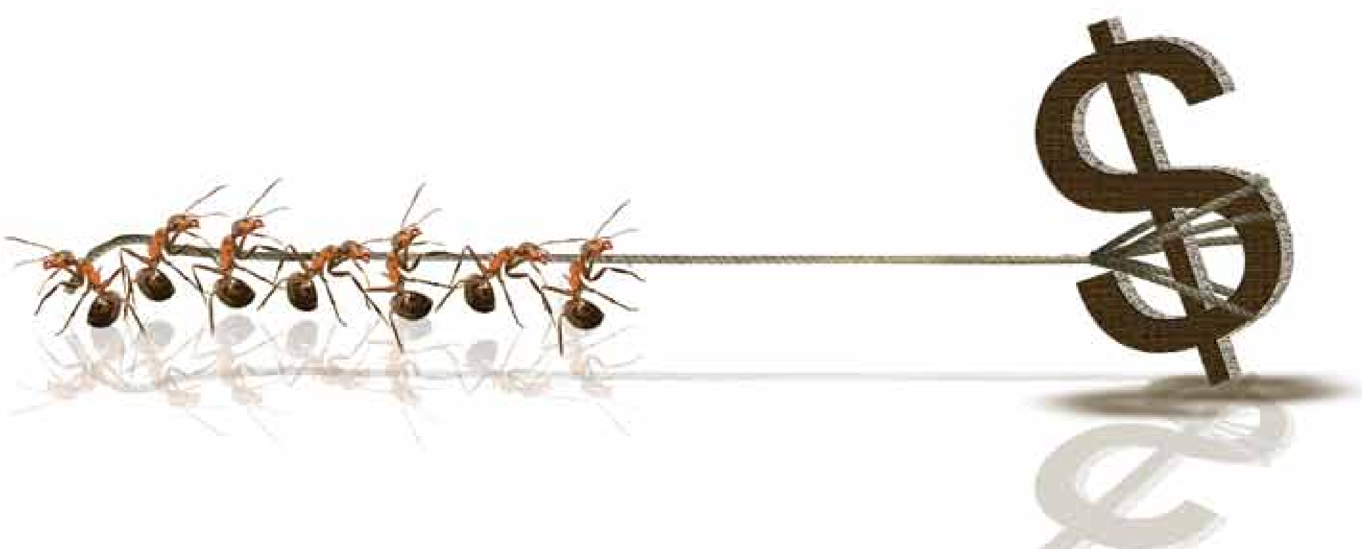
Until the early 1990s, workplace giving was synonymous with the United Way as the annual campaign that raised money for local and national charities. At about the same time, the Combined Federal Campaign opened the door to other charities and allowed access to solicit government employees. This began the transition in workplace giving that we see evolving today.

In 1992, United Way of America commissioned the Consulting Network (TCN) to study the trends and implication of something then referred to as "donor choice." United Way had experienced more designations to specific charities by donors and more movement by individual United Ways to offer giving choices to retain donors for their campaigns. There were three key findings that supported donors becoming more proactive in selecting charities themselves:

1. Employees were getting, or already had, more choice in the workplace regarding health-care coverage and managing their retirement portfolios, and they had been introduced to empowerment and self-directed work.
2. Employee volunteerism had emerged as an important asset for how a company and its employees could join together to make a difference in the community while also building stronger company-employee relations.
3. A new generation of corporate leaders was less inclined to dictate where or how employees should give.

These three factors worked against the traditional United Way campaign model. It was hard to tell employees who were empowered and in control of their health care and pension investments that they had to choose a single option on a pledge card. It was simply inconsistent with other changes in the workplace. As one colleague told

John Coy is the president of the Consulting Network.



Companies' expectations of workplace-giving programs have shifted.

me, "It's difficult to have employees volunteer for a charity they then cannot give to." Another added, "We wanted a workplace campaign that the employees owned and was uniquely theirs, not the company's."

At the same time, charities and federations of charities, which were successful in the Combined Federal Campaign, turned their attention to the private workplace. Add to this the growing importance of the Internet and the ability of individuals to access information about their favorite or interested charities, and it set the stage for a new era in workplace giving.

New Models Emerge

In a 2009 survey conducted by the Consulting Network, only 25 percent of the companies in the survey reported that they conducted a traditional United Way–only campaign. This finding was consistent with earlier surveys that showed that a growing percentage of company workplace programs offer choice in giving to their employees. There are three most common workplace-giving models. In nearly every model, United Way remains a valued partner:

- Specific charities would include one to 10 charities that are featured alongside United Way.
- The federated model features one or more federations often representing issues such as health, the environment, international relief and development, and social justice, and these issues are positioned within United Way as a range of giving choices.
- The open campaign provides employees with the opportunity to select any qualified charities of interest to them.

Although the Combined Federal Campaign includes thousands of charities and federations, the private workplace is more selective. The primary federations represented in the private workplace are America's Charities, Community Health Charities, EarthShare, Global Impact, and United Way.

Some examples of individual charities commonly selected and participating in private campaigns include the American Cancer Society, the American Heart Association, the American Red Cross, and Doctors without Borders, among others.

Motivations for Change

No one factor motivates a company to offer employees expanded giving choices at the workplace. Over the past several years, one of the major influences is the growing importance of employee volunteers and the value employee volunteerism brings to a company, a community, and to employees' work experience.

Increasingly, companies have developed comprehensive employee-engagement programs where hands-on volunteering and workplace giving are part of a larger program that includes workplace events, days of caring, volunteer recognition, and monetary incentives such as matching gifts and volunteer grants. As companies embrace this holistic approach to engaging employees and give ownership of these programs to employees, it is inconsistent to have a workplace-giving campaign that does not meet employee interests or where employees don't feel a sense of ownership.

Shifting Expectations

Perhaps one of the more interesting shifts in attitudes is what companies expect from providing a workplace-giving program. When asked to put a value on four outcomes (employee satisfaction, employee participation, growth of dollars raised, and total revenue raised) 66 percent of TCN survey participants said employee satisfaction and participation are the most important. While respondents said that total amount and growth of the amount raised are also important, they are secondary expectations.

These findings differ greatly from the traditional United Way approach of measuring success (i.e., by the amount raised and reaching a community-wide campaign goal).

The Implications of the United Way's Community Impact Model

In 2000, United Way of America announced that it would shift its strategic focus from a fundraiser to a community-impact organization. For the next several years, United Way of America began promoting the Agenda for Community Impact model, and local affiliates began adopting the model. United Way of America promoted issues that included education, income stability, and healthy lives. At the heart of the Community Impact approach was that United Way organizations could select and focus on local issues, raise funds for those issues, and make grants to organizations that demonstrated the capacity to affect the selected issues.

The greatest implication for employees is that in its purest form, the major shift moved United Way from being a collection of funded agencies to an organization that funds issues that a community deems a high priority. The other significant implication is that funding causes rather than member agencies reallocated dollars and reduced funding available to United Way's traditional agency base. In many cases, this resulted in drastic funding cuts for many agencies, no funding for others, and in several communities, an abandonment of the member-agency model altogether.

National agencies with local affiliates seem to have been affected by the Community Impact model. The American Red Cross has been defunded or has seen substantially lower allocations by United Way organizations serving New York, Portland, Dallas, Palo Alto, and Orange County, to name a few. Salvation Army funding was cut so severely in Philadelphia, Cincinnati, and Boston that the organization withdrew from those United Way affiliates. Examples of other groups feeling the impact of the new United Way approach and allocation of funds include the Boy Scouts of America, Girls Inc., the Girl Scouts of USA, YMCA, and Goodwill Industries International.

But not all local United Way organizations have adopted the Agenda for Community Impact model. Many still retain member agencies (now referred to as partners) alongside the priority causes or issues representing each community's needs. While this approach responds to local needs, it means that organizations like the American Red Cross, the Boy Scouts, or regional agencies that cross multiple local United Way organizations may be funded by one United Way jurisdiction and not by an adjacent United Way. The situation also creates problems for corporations that have multiple work-site locations throughout the country and want their campaign to have a company-wide look and feel.

In an August 2008 *Chronicle of Philanthropy* article, Don Sodo, (then president of America's Charities), said that he doubted that United Way's Community Impact model could win more money from donors, especially those who give through campaigns run by their employers. "It's counter to what employers and employees want," Soto said. "Research shows that about 70 percent of people would rather designate their gift to a charity they know than give it to an organization that will simply regrant it."

Not all United Ways have adopted the Agenda for Community Impact model.

Brian Gallagher, the president of United Way of America, disagrees. It no longer makes sense to try to reach donors at work, he says. "There are fewer people in large workplaces and so many more in small workplaces, we just can't get to them." In 2006, the most recent year for which figures are available, gifts to United Way's on-the-job drives represented 58 percent of the nearly $4 billion raised by United Way that year, a decrease from 63 percent in 2002. Gallagher says he would like that percentage to shrink even further.

Data from United Way of America confirms its desire to diversify its funding base. At the end of 2006, United Way of America reported $3.98 billion in total dollars raised, with $3.63 billion from its annual workplace campaign. For the 2009 campaign year, United Way reported aggregate revenue from contributions of $3.85 billion, of which workplace campaigns accounted for 78.7 percent of the total contributions, or $3.03 billion. Between 2006 and 2009, this represents a decrease of $600 million raised from workplace campaigns.

It is also important to understand that United Way organizations collectively raised $3.91 billion in 2001 and $3.85 billion in 2009. In light of these figures and the decreasing revenue from workplace campaigns, the strategy to reduce the portion of United Way funding from the workplace is, in fact, happening. While United Way's strategy of diversifying its funding sources has not achieved an increase in revenue, it may be a necessary strategy given what appears to be the deteriorating appeal of United Way in the workplace. So unless charities can find other sources

Year	Total U.S Giving (in billions)	Total United Way Donated Revenue (in billions)	Revenue from Workplace Campaigns (in billions)
2001	$270.55	$3.91	$3.52
2006	$303.31	$3.98	$3.63
2008	$315.08	$3.91	$3.14
2009	$303.31	$3.85	$3.03

Giving to United Way has suffered from the erosion of dollars donated through workplace campaigns.

of revenue, $600 million per year will likely continue to be lost through the decline in United Way workplace giving.

During a nine-year period, giving to United Way has lost market share as a portion of total U.S. giving and has also suffered from the continued erosion of dollars donated through workplace campaigns.

By all reports, over the past year the economy has had an impact on total U.S. giving, but the local results reported by United Way and individual company campaigns show mixed results. In the spring of 2010, the Consulting Network conducted a survey. Of the 35 responding companies, 53 percent reported increases in overall employee giving for the 2009 campaigns.

United Way reports that giving increased in several community campaigns, including Fargo, North Dakota, and Milwaukee, Wisconsin, but that other communities—such as Columbus, Ohio, and Austin, Texas—saw significant reductions in revenue.

Combined Federal Campaign

After campaigns with private corporate employers, the next largest player in workplace giving is the Combined Federal Campaign (CFC), which represents civilian and military personnel. A 2009 report shows that the 211 CFC campaigns raised $282.6 million. The two largest campaigns are the CFC of the National Capital Area and the Overseas Campaign, which together represent 29 percent of the total amount raised in 2009; each raised $66.5 million and $15.6 million, respectively. Global Impact, not United Way, manages both campaigns, which achieved a 5 percent increase in revenue in 2009 as compared with 2008.

The overall trend for all CFC campaigns is that they now raise more dollars from fewer donors, which translates into a higher average gift per donor. Between 2000 and 2009, giving through CFC has increased 26 percent. Contrary to United Way experience, this suggests that the workplace is capable of increased revenue.

Competition for Workplace Access

Once CFC established an open workplace campaign for federal employees, federations and individual charities turned their attention to the private workforce. As a result of changes in the workplace and missteps by some United Ways regarding financial and fiduciary issues, the private workplace began to open access to new charities during the mid-1990s. And throughout the next decade, it continued at a quickening pace.

A key factor in opening private campaigns came during the early 1990s, when four major federations (America's Charities, Community Health Charities, EarthShare, and Global Impact) established a coalition to collaboratively promote and market open employee campaigns to the private sector. These four federations represented more than 400 qualified charities and aligned with issues of interest to most companies. Under the banner of Charities@Work, these federations promoted expanding workplace giving and provided support services to companies interested in new campaign models. A sample of companies where these federations are represented as partners include American Express, J.P. Morgan Chase, United Airlines, United Health, and Serco.

Individual charities such as the American Cancer Society, the American Heart Association, St. Jude Children's Research Hospital, the Salvation Army, and other national and regional charities have or are gearing up to more closely partner with companies and the private workplace. The American Heart Association and the American Cancer Society report having raised nearly $20 million from employees in private workplace campaigns and have established joint marketing efforts to promote access to corporate employees.

Greater competition for access is also taking place at the community level. In the greater Washington, D.C., area, some agencies—which are leaving the United Way either because of continued reductions in United Way allocations or because they are no longer funded by the local United Way—have formed their own competitive federation called Community First. Agencies have created similar coalitions or worked together in communities such as Austin, Orlando, Philadelphia, and Tampa to compete with United Way and to gain access to workplace-giving campaigns.

The Salvation Army, the Red Cross, YMCA, Boy Scouts, and other local affiliates and charities have decided to leave United Way as well. Given the reduced United Way allocations, many see independence from United Way as a better alternative. These organizations are free from United Way fundraising restrictions and other policies limiting the cultivation and solicitation of corporations, individuals, and other local funders.

Although there are no collective numbers, it is estimated that these federations, agencies and coalitions have raised in excess of $100 million from private-workplace employees. As most companies expand employee choice in the workplace campaign, the assumption is that, over the next 10 years, this number will grow substantially. If United Way revenue from the private-workplace campaign shrinks at a rate of millions per year, those dollars will be available if campaigns are not open to worthy charities of interest to employees.

A recent survey indicates that 75 percent of companies provide choice in their workplace-giving campaigns.

Corporate Response to the New Workplace-Giving Environment

Overall, corporate response to employees' interest in having more giving choice at the workplace has been positive. In the recent TCN survey, 75 percent of companies surveyed indicated that they conduct a giving campaign that provides employees with at least one other giving choice in addition to the United Way. Only 25 percent reported retaining the traditional United Way campaign, while 36 percent conduct open campaigns where employees can give to any qualified charity.

Those that have expanded their campaigns have done so as part of an overall branding of their employee-engagement programs. Others have

A workplace-giving campaign has become an employee-company partnership.

redesigned their campaigns to provide a unified, company-wide look to their employee offerings and to give employees greater ownership in the approach and operation of the workplace campaign. Some companies have designed campaigns that are more aligned with their core values or missions—health, environment, and global development, for example—or social issues that are close to a company's interests, such as education, workforce development, and economic development.

Regardless of what motivates companies to expand their campaigns, a few key matters lie at the heart of such decisions:

- Companies no longer see employee-giving campaigns as a separate activity run by an outside agent. Such campaigns are an integral part of an overall employee-engagement strategy.
- A workplace-giving campaign is an employee-company partnership to address social issues that affect both parties.
- It is not the role of a company or its management to tell employees which organizations to give to or how much to give. A company's role is to promote the value of giving and then let employees choose what is in their interest and capacity.
- Companies see employee campaigns as an opportunity to communicate important messages, to engage employees, and to build valuable relationships with employees that create a preferred place to work.

There are important implications to expanding a workplace campaign beyond the traditional United Way–style campaign. First is the relationship with United Way and the potential that funding for its programs may be reduced. The second is the role United Way will play in the campaign, such as serving as a fiscal agent or donor interface to collect and distribute employee contributions as directed by an employee. Each United Way has its own policies regarding how it will handle designations outside its group of causes and agencies. Some take a higher percentage as an administrative fee, others may require a minimum contribution by the employee, and in some cases, United Way will not process designated contributions outside its programs.

For a company with multiple locations, dealing with an assortment of United Way policies can be a challenge for its payroll deduction–processing operations. Other companies balk at higher fees and minimum-contribution requirements for employees who choose to give to agencies not included in United Way. This situation has prompted more companies to rely on outside vendors to process funds for the employee campaign. Often, this represents an additional cost to the company, but most are willing to absorb the cost or to allow a modest processing fee to be subtracted from an employee's contribution. If a company uses a vendor to process matching gifts, it will often use the same vendor to process the workplace-giving campaign.

What Does the Future Hold?

Will workplace giving be part of the private workplace in the future? It is safe to say yes, in some form. That form may not rely on payroll deduction or an annual campaign approach, but allowing employees to collectively give at the workplace is sustainable because of the benefits it provides to a company, its employees, and charities and social causes. Some giving models couple events, team activities, and employee community projects that raise money outside the workplace campaign.

Today's technology and social networking also provide new avenues for employees to promote and support their favorite charities. Future technology will surely provide new opportunities to gather, rally, and encourage employees to give to worthy causes.

Several trends have emerged that support the value of workplace giving:

- Employees will continue to seek volunteer opportunities through the workplace.
- Increasingly, more companies will see the value in owning and branding their employee-engagement programs, including the integration of employee giving.
- As more companies come to value employee engagement, they will design campaigns open to more charities that reflect the interest of their workers.

- Technology will enable employees to have and manage their personal workplace-giving accounts.
- Companies can expect the future to bring greater competition for access to the workplace.
- National charities will develop strategies and resources to gain access to private workplace campaigns and to support their local-affiliate organizations' capacity.
- United Way will see greater competition as emerging local and national federations seek their place in workplace campaigns and employees ask for more choice in giving.
- Employees will expect transparency and accountability from charities they support and will continue to designate their giving to charities with which they identify.
- Technology will enable employees to have giving accounts where they can deposit funds and allocate donations at their choosing.
- External service vendors other than United Way will provide employee and charity interface just as companies use service vendors to manage health care and retirement funds.
- Companies will be advocates for employee community engagement and giving and take a less active role in directing employees on how and when to give.
- New social and online giving will provide employees with alternatives to give directly, bypassing company-sponsored workplace campaigns.

It is a new era in workplace giving. New corporate approaches, United Way's Agenda for Community Impact approach, increased competition for access to workers, and "direct-to-charity technology" will keep this space dynamic for years to come. Gone is the one-model-fits-all workplace-giving campaign. Models that efficiently engage employees, promote the value of giving, and generate revenue for organizations seeking to address our most threatening social problems will emerge as the winners in workplace giving.

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It is a new era in workplace giving.

To Fee or Not to Fee? (And Related Questions)

by the editors

***Editors' note:** This article is adapted from the 2005 book* Effective Economic Decision Making by Nonprofit Organizations, *which was produced by the National Center on Nonprofit Enterprise and the Foundation Center. This article was originally published in* NPQ, *summer 2004, volume 11, no. 2, but its wisdom still holds true today.*

Why would tax-exempt organizations, which have some freedom from the strictures of the marketplace, willingly subject themselves to satisfying the market for even a part of their budgets? Not merely to get more money, it turns out; but since market failure is a common rationale for why we need nonprofit organizations and why they are free from paying most taxes, nonprofits have to act wisely in setting fees.

Fees for service have been charged by nonprofits for years, but research shows that this is becoming an increasingly large proportion of nonprofit budgets. It behooves us, therefore, to know what we are doing when thinking about whether and how to price our services to our constituents. This article describes four of the considerations cited by Oster, Gray, and Weinberg, including the following:

- whether to charge fees;
- how to start or increase fees;
- sliding scales; and
- bundling services.

These are critical considerations in pricing a program, but they are not the only factors. Readers interested in the practical matters of combining fixed with variable and semi-variable costs as aspects of pricing programs should also refer to the article in the Spring 2003 issue of the *Nonprofit Quarterly* entitled "Is There Enough Overhead in Your Grant?" (www.nonprofitquarterly.org/section/396.html).

To Charge or Not to Charge?

The most powerful argument in favor of charging fees is the discipline of the marketplace: that fees increase accountability to the people receiving services. Getting a third-party payer involved (in this case we use the term *third party* to denote a foundation, health-care insurer, or government, etc.) in any transaction can divert the accountability so that the organization is more focused on the requirements and satisfaction of the third-party payer than on the needs of the recipient. The advantages of relying on revenue from users is that an organization will likely serve users better when its financial/institutional success is directly tied to user satisfaction.[1]

The nonprofit sector's access to third-party funding mechanisms means that for some organizations, it may be financially viable to have no charges for services—but this doesn't mean charging is out of the question. As Centro Presente, a Boston-based Central American organization discovered, it can be worth further examination even where the organizational tradition is to depend primarily on grants and contracts. When Centro Presente started, many of its constituents were newcomers to the United States and, indeed, had little money to spare.

Over time, the organization was faced with cutting back on its core programs because there was less grant money available to support its activities (legal services to immigrants and advocacy on immigration-related issues). The organization began conversations with its constituents to engage them in revisiting the organizational model. These conversations revealed that sufficient numbers had progressed to gainful employment and were more than willing to pay the organization for services, as long as it provided what they really needed. This change increased revenue and brought the organization closer to the needs of its constituency. Centro Presente still receives grants but is less dependent on them; and it has a healthier, more sophisticated, more straightforward—and therefore less encumbered—planning process.

Still, sometimes user fees are not practical given the organization's mission. Many nonprofits, such as Mothers Against Drunk Driving, advocate for things that are socially beneficial but for which there is no direct service to individuals on which fees could be levied. Even though the population as a whole can be said to benefit from MADD's work, the organization has no ability to restrict its benefits to the people willing to pay. In fact, the most appropriate revenue source (and the only one available) is voluntary contributions from people who understand that others, unable to pay, also benefit.

"Sometimes charging a fee makes no practical, economic sense," as the article "Pricing in the Nonprofit Sector" notes. "One example of this is when the cost of collecting fees would exceed the revenue raised from such fees." The authors note that this happens most commonly when "the costs of monitoring usage are very high, for example in a recreational area with no natural fences."

The authors go on to say the following:

> Numerous studies have suggested that in many circumstances, forcing clients to pay at least some fee, however modest in its revenue-generating properties, creates buy-in for those clients and can be mission-enhancing. In instituting a fee, we have fewer clients, but higher success rates with the clients we do have.
>
> In an experimental study, Yoken and Berman (1984) demonstrate that before psychotherapy even began, clients who expected not to pay for treatment anticipated gaining significantly less from their sessions than those who were told they would be charged a fee. In a field setting, Kotler and Roberto (1989) reported that patients avoided a newly established free clinic in a South American hospital because "they were not convinced of the quality and attention they would receive in the hospital" (p. 175). As a result, the hospital decided to charge a fee and the number of patients increased. However, it should be noted that when clients have a stronger basis for judging product or service quality, the role of price as a cue for high quality is more limited.
>
> There are also times when charging some fee helps to preserve the dignity of clients served. The Cleveland Jewish Community Center, for example, recently introduced a transportation program for seniors, providing rides for doctor visits, shopping and other activities. Each senior paid "$1 per leg." Revenue raised in this manner is relatively modest, for there is no real congestion issue, and the service is not intended to change client behavior. The fee clearly does have a role to play by signaling to seniors that they contribute to the program, and that it is not strictly charity. For populations that are "newly needy" charging a modest fee may be much preferable to no fee at all.

Fees are a good fit in the following situations:

- collecting fees is practical;
- access to the service among the intended audience is not cut off through the charging of those fees;
- accountability to beneficiaries would be significantly augmented; and
- the central function or core mission is not subverted. This subversion can occur in several ways, including displacement of primary beneficiaries by more affluent customers, and mission drift to more lucrative pursuits through inattentive managers.

It is wise for managers to think through alternative long-term scenarios and monitor consequences.

How to Transition to Charging Fees

It is one thing to launch a new service with a price attached; it is another and more difficult proposition to attach a price to a service originally provided for no fee. On the Internet, there is a variety of hard-gained experience to support this. "Once people are accustomed to receiving something for free, it is very difficult to get them to pay for it."

Some organizations have found that they can make a gradual transition to charging fees if they

> continue to offer a version of the product free, while offering a preferred option at some price. Arts organizations that begin by offering free concerts will find it easier to introduce pricing if they maintain some free seats (or some free performances). The Kennedy Center coupled a substantial increase in admissions fees with increased attention to free performances. Health clinics that initiate co-pays for service might limit those co-pays for certain essential health services.

The overriding suggestion in this chapter on making the transition from no-cost to cost-based services is this: It is easiest to institute a price for an already-existing service when there is a significant upgrade or change in that service, the key word being *significant*. A related caution is that when a new or redeveloped service is initiated, there are frequently startup costs greater than planned. Organizations should budget cautiously for development, evaluation, and fine-tuning of the program as well as for development costs for new financial controls and the installation of mechanisms to collect and process payments.

Considerations for Sliding Scales

Nonprofits are active users of differential pricing, usually in the form of sliding scales, but they are not particularly scientific in their approaches. Theoretically, a sliding scale carries with it the potential for alienating clients who are paying full freight. But for many nonprofits, the advantages to differential pricing are clear: it provides access to those who might otherwise be excluded; it allows for income diversity among program users; and it provides a larger market for the service. Oster, Gray, and Weinberg assert that the apparent key to success in establishing and maintaining a sliding-scale fee structure is transparency combined with voluntary participation.

According to Oster, Gray, and Weinberg, there are some good examples.

> A small preschool program in New Haven charges day care prices on a sliding scale related to voluntary reporting of parental income and supported by an explicit ideology of inclusion. In these cases, there is a kind of voluntary or at least cooperative price discrimination and some attempt to promote buy-in of the principle of differentials. Some museums take an intermediate stance, treating admissions fees as voluntary donations, but listing a "suggested" fee. For modern-day colleges, the picture is rather different. For many in the college world, differential pricing is a tool that improves institutional quality for all students, by allowing colleges to accept a student population without regard to ability to pay. Nevertheless, tuition differences are imposed, not chosen, and the ideological and practical importance of these price differentials, however clear they are to administrators, are not always widely embraced by parents. The result, in some colleges, is a growing resentment and gaming of the system.

For nonprofits that want to practice differential pricing, the lessons are clear: The more cooperative or voluntary such differentials appear, the less resistant clients will be to them. When differentials are imposed, rather than chosen, the nonprofit has a burden to convince clients of the value of the differentials in terms of product improvements for everyone. Winston and Zimmerman (2000), for example, suggest that colleges remind parents that even those students who pay the full $31,000 tuition are paying only a portion of the true total costs of an education. In this way, the point is made that in organizations supported in part by donative funds and/or endowments, each client is typically subsidized, and it is simply a question of how deep those subsidies are for different people. Again, in the college setting, making the case for the role of diversity of all sorts in improving the college experience for all students is vitally important in reducing resistance to pricing differentials. For organizations like hospitals and arts organizations, with substantial infrastructure or fixed costs, differential pricing may help to expand the audience in ways that lower the overall average production costs.

Considerations in Bundling Services

Product bundling is the practice of offering groups of services as packages, with a package price. The authors pose the question "Should an organization offer discounts to clients who buy in volume, or to those who buy a range of the services offered?" The authors continue:

> Such discounts are common in both the for-profit and nonprofit world. Theatres offer subscriptions to most or all of the plays offered in a season. In these subscriptions, theatres offer a series of plays for a price that is slightly lower than the price of the separate tickets, pushing patrons to attend a play they might otherwise eschew. Museums offer memberships, enabling patrons to pay a fixed up-front fee and then visit the museum whenever they want for no fee. These packages are especially useful in settings in which the incremental cost of adding client use is very small. When we offer a package, we are encouraging usage, because once the fee is paid, the added cost of attendance at the event is zero. For a museum with lots of open space, or a theater with empty seats, the demand expansion gained through product bundling can be very advantageous for both mission reasons and economics. Behavioral economists have found that these bundled subscription fees or memberships are especially attractive to customers when the products or services are meritorious goods. For high-end theater, opera, intellectual journals, and the like, customers buy subscriptions in part as a way to "force themselves" to use more of the product than they might episodically choose (Ryans and Weinberg 1979).

When clients differ in terms of their needs, the choice between fixed price and à la carte becomes more interesting. In this case, offering prices for each of the pieces lets clients pick and choose, and this has considerable advantages. As a consequence of this pricing strategy, there will likely be differences among your clients in the way each uses services. On the other hand, the nonprofit may actually want to use the price structure to try to induce more homogeneity among clients.

Bundling can help organizations in the service of their missions in other ways as well. Judicious combinations of plays can help theaters to use the lure of popular plays to ensure attendance at more obscure choices. This bundling both fills empty seats at these plays, and educates audiences about new genres. For this reason, the components of series are usually carefully chosen to include some pieces that would have trouble standing on their own.

Bundled prices that promote homogeneity may serve an ideological function as well. Consider a community center in a diverse neighborhood that offers a range of weekend and after-school activities. Pricing each activity differentially has certain appeal, particularly when some programs are likely to be oversubscribed and when those programs vary by costs. On the other hand, offering all, or at least most, of the programs for a fixed, single membership fee, promotes economic diversity in the program base. For many nonprofit organizations, this non-sorting effect may be the dominant consideration in choosing the à la carte or fixed price scheme. However, as Aansari, Siddarth and Weinberg (1996) demonstrate in a study of performing arts organizations, bundling often works somewhat differently in the nonprofit sector. The typical nonprofit arts organization prefers bundles with larger numbers of events, for example, than the for-profit. Bundling is thus used in part to expand volume, as well as to expand profits. As in the for-profit sector, most nonprofits employ strategies of mixed bundling, selling both single tickets and subscriptions, and subscriptions have added value to the nonprofit. This may well be in part because subscription sales often lead to charitable giving.

Nonprofits Embrace Fees

Since more and more nonprofits are considering undertaking some revenue-generating activity, when and how to charge fees and how to think about and manage the pricing and capturing of these fees should clearly be a strong and consistent thread of conversation among nonprofits. This article has raised considerations in four broad areas: to charge or not to charge; how to transition from a no-fee to a fee-based structure; sliding scale fees; and bundling services. These tactics can be considered opening salvos in a longer consideration of fees in the context of nonprofit work.

Endnotes

1. See Ruth McCambridge and Lester Salamon, "In but not of the Market: The Special Challenge of Nonprofit-ness," *NPQ*, vol. 10, no. 1, spring 2003.

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Letting Go: A Leadership Challenge

by the editors

Editors' note: *In mid-2010, readers told us that the economy had played a role in the decision of their organizations' executives to postpone their departure. We consulted Tim Wolfred, the senior project director at CompassPoint Nonprofit Services; Hez Norton, the executive transitions program manager at Third Sector New England; and Deborah Linnell, the director of programs at Third Sector New England, about the trend of hanging on and other interesting developments in the world of executive transitions today.*

NPQ: *What developments have you seen in the world of executive transition lately?*

Tim Wolfred: After the recession hit, there were 18 months to two years of slowdown in turnovers. People held on for personal reasons or to see their agencies through the challenging time. Since early 2010, we've seen an uptick in requests for executive-transition assistance. The people who have been sitting tight in their organizations have decided to move on.

We are also seeing more boards asking executives to move on. With leaders who had been waiting to leave, boards are more frequently stepping up and saying, "It's better for you and the agency for you to begin planning your succession."

Hez Norton: We saw the same: first a slowdown, and now a recent increase in executive transition, particularly in the past six months. At least half of these changes were founders and/or longtime executives transitioning in their role but not leaving the organization. We are seeing many founders or longtime executives trying to stay.

NPQ: *As an organization approaches transition with a founding or longterm executive, what are some useful strategies?*

H.N.: In situations where a founder or longtime executive stays in the organization either during the transition or in another role in the organization, it is helpful to hire an interim director as either a managing director or a co-equal director to help the organization practice the new structure before it hires a permanent new executive.

This helps the organization to discover whether it is ready for the change. It is "testing" shared leadership in the organization. In many cases, an organization might find that the new structure as planned will not work at all or that adjustments need to be made to make it work. It is better to "practice" this with an interim [director], rather than hiring a new staff person into a role that may likely change.

T.W.: We have had two major agencies go through a similar process. The founder chewed up the interim, in part because he didn't let go and didn't want to let go. It's so much better to surface these dynamics with the interim leader and deal with them rather than have the next permanent hire destroyed by them.

Deborah Linnell: The takeaway is that an interim director is an excellent way to manage difficult change processes when a founder leaves or changes his role in an organization.

NPQ: *What's your advice for leaders in small and midsized organizations who hold onto an executive position?*

D.L.: You need to look at yourself and determine why you are holding on. If you are overwhelmed, it may help to use short-term funds and hire a coach to get perspective. If you have perspective and you want to see an organization through the transition, you need to look at where you can strengthen and delegate to your staff. Look at this moment as an opportunity to build capacity at the tiers surrounding or below you. At minimum, let go of the practice of holding onto everything and begin to delegate and engage the board. If you have a weak board right now, it's a problem. This is when a good working board can finally be worth its weight in gold.

T.W.: In addition to the executive developing perspective and getting a coach, I would suggest getting a coach for the management team. Executive transition is an issue for the whole organization. Other staff members may also face burnout. All can sit down together to ask, "How are we going to get through this together?" Also for an executive, moving to a four-day workweek or another [form of] reduced schedule can help give relief while he regroups.

H.N.: The challenges that come with a recession can accentuate behavior in organizations. If organizations are healthy, they can react with healthy behavior, but if organizations are unhealthy, negative behavior increases.

Founders can be particularly adept at ignoring or manipulating the counsel of boards, which speaks to the value of hiring a coach. Many leaders are saying that they have been in this tough spot financially before but that they are not taking the [leap] to think about strategic structural changes. They continue to think the status quo will get them through, because it always has in some way. But this time, the status quo will probably not get you through.

NPQ: *How do you know it's time for an executive to leave?*

T.W.: The worst-case scenario is when you dread going to the office every day. The challenge for an executive in the thick of it is developing perspective. It's the slow boil that kills the frog. You don't realize it, but you are slowly dying.

I believe—and have heard this from boards as well—if a board has a practice of doing an annual evaluation of an executive and that evaluation has some elements of 360-degree evaluation [with] input from staff, it's one way to help an executive keep perspective and to keep the board in a dialogue about how well the executive can keep up with the job. Absent that, the board has to do some sort of intervention. That's when we hear from folks. The board will say, "Enough is enough, we have to step in," and that's when the executive will leave or step into some emeritus role.

H.N.: In some cases, the executive is not particularly tied to staying, and when asked, the executive responds, "The board needs me" or "The board wants me to stay." But that's not a good reason to stay. Often these leaders don't really want to stay, and they are exhausted. But the board is not ready to let go, and it is scared about what it means for it as a board if a leader leaves.

D.L.: Some groups don't have boards developed to the place where they do a regular, organized evaluation of executives. Those boards are more following boards to begin with. That dynamic is a difficult one. Traditionally, as I wrote previously, with a weak board and a strong but increasingly ineffective leader, an organization's staff starts to force change by fussing, and then the board steps in. Those are the messy kinds of situations.

NPQ: *Other than hiring an interim director, what's the ideal time line and process?*

T.W.: The process isn't any different. The steps to hiring a new executive are still the right steps: Get clear on where the organization is going and what its current constraints are in getting there. Based on that clarity, determine which skills and characteristics are needed in the next executive. Engage board and staff in the vision. The result is an organization ready to embrace change. They see clearly what they need in the next executive and are enthusiastic about it.

H.N.: One issue that always comes up and is particularly important right now is that the board understands the financial reality of the organization. That [reality] can be missed, because the board may not have clearly understood what the executive has been doing or the cash flow. Then the new executive gets in, and low and behold, he has three months to raise tons of money, or worse. The financial picture has to be really clear, and the board has to understand and articulate it to a potential new leader.

D.L.: There's the traditional process that Tim speaks to, and I agree that on the front end, getting the finances together is important. To get people to be as honest as they can: "What might be challenges?" And "What good things do we want reinforced so people can develop a profile?"

For instance, if a leader has been an expert in content but not a good manager or communicator, the group might want to go to a program director and strong content manager and a new leader who can buoy the weaknesses around communication and management. There has to be a process that identifies the weakness in the culture and our processes do that, but it depends on the capacity of the group to be open about that.

NPQ: *What's an "average time line"?*

T.W.: Five to six months is ideal in terms of taking a group through a healthy process of strategic review, followed by a rigorous candidate search-and-screening process. Some groups will shorten it a bit.

D.L.: Unless there are external factors, this is not the time to rush, but a time to slow down to leverage the best possible results for the organization long term. It is also a time for funders to step up and support organizations through leadership transitions.

T.W.: In the current economy, what we're seeing is more groups trying to do it on their own. They don't have money and can't get funding for this process. They are either doing it themselves or asking us for a limited amount of coaching and advice to help them through the process.

NPQ: *What do you do when an executive director leaves without giving notice?*

T.W.: Get an interim director.

D.L.: Get an interim director—unless there's a solid management team with solid expectations among team members and with the board of directors, especially about communications. If internal staff steps up, I would recommend a management team rather than one person. A study that Tim and I did showed that a team does better than a single person.

T.W.: It helps if the agency is in a relatively healthy place.

D.L.: Even in a healthy place, those groups that have a great setup, every organization needs some capacity built, and you can get an external interim executive with particular expertise that can help build a certain capacity. People shouldn't feel like they can't have current staff people step up. And on the other hand, an external person can bring a fresh eye, a new perspective, and possibly build a capacity that wasn't so strong before.

H.N.: Definitely get an interim [director] and take the time to consider whether the organization's current structure/way of working is the most effective way to accomplish the mission. It is a good time to consider strategic partnerships as well.

NPQ: *In this economy, have you seen more mergers or collaborations?*

H.N.: Very few. And those few that we have seen have had foundations support the process by paying for consulting support.

NPQ: *Have you seen an uptick in alternative management structures?*

T.W.: We see a parallel stream of thirty-something leaders who want more of a shared-leadership model. Sometimes its codirectors, sometimes it's leadership dispersed across a team under one director. We're seeing more of that and requests for helping organizations shift to a shared-leadership model. That's not really tied into transition work.

H.N.: We have experienced this as well: younger leaders who are integrating shared leadership into their management structure.

D.L.: With the economy, you might not have staff say what they need to say because they fear losing their jobs.

T.W.: I had a call the other day from an agency with an uncomfortable situation, where older managers were not working well with younger ones—different sets of expectations.

I recently came across the concept of phased retirement. Some folks are now advocating this for boomer executives who are having trouble letting go: maybe [because of] personal finances, maybe wanting to stay involved longer in what's been their life's work.

D.L.: We need to talk more about succession planning and the importance of it. No matter how long an executive thinks he'll stay, everyone should do succession planning.

NPQ: *Walk through an ideal process for this planning.*

T.W.: We refer to it as *strategic talent development*. An executive should continually develop the skills of those in the organization and their ability to step up. So there's a constant attention to what it takes to lead an agency and how to develop staff to step up in the future.

H.N.: That kind of work helps when it's shared with the board. It helps the board understand more about the executive role which can help when the transition happens. So board members understand that it may not be a realistic job and what needs to shift so that other leaders in the organization can take leadership. Board engagement is important.

D.L.: As strategic alliances take hold to get the mission-related, community-based work done, I believe there will be a strong emphasis on shared leadership across multiple organizations.

I believe that there are new organizational norms emerging and that the tradition of nonprofit lifecycles may not be exactly as they have been. Younger generations will be a part of that change, but so will the larger structure and systems changes that are forcing groups into creative ways of getting to the community impact they desire.

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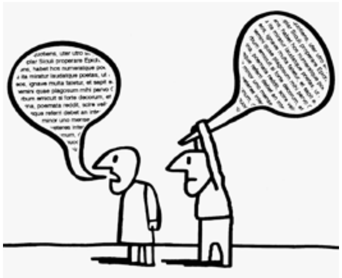

Dr. Conflict

by Mark Light

DEAR DR. CONFLICT,

I was asked to take a leadership role in a volunteer-only nonprofit. My hope was to stimulate the coalition to move forward toward its goals. Unfortunately, two members of the coalition take an adamant stand against all my suggestions, regardless of the time I spend explaining how these ideas can help.

I have considered resigning from the board because I don't know whether I can ever win over these two board members. Discussions often become intense, which does not make for a good board meeting, and meetings are unproductive. I have asked both board members to reconsider their part in this conflict, but we seem to be at an impasse.

On an entirely different matter, we are trying to recruit younger blood to the board, but these millennials and boomers seem to lack respect for what each group brings to the table—and communicate quite differently—on a technological and an interpersonal level.

Leadership Is Tough

Dear Leadership Is Tough,

Followers not following and millennials not respecting boomers—what is the world coming to? Here you are a reluctant leader who gets no respect: the Rodney Dangerfield of the agency. But Dr. Conflict wonders why you care so much about these dissenters. If your board is the average size of 16, having two members who aren't overjoyed with your suggestions is hardly a worry. Simply have someone make the motion on your suggestion, discuss it, let the two adamants make their case, and then call the question. If your board is like most, simple majority carries the day.

Maybe you worry that the absence of unanimity is a failure of leadership, which is why you want to resign. You took the time to make your rational argument to the reluctant ones, and yet they still stand firm against you. Isn't unanimity the holy grail of good governance? Dr. Conflict wishes to disabuse you of this folly. The holy grail is for board members to debate and disagree, vote their conscience, and then support majority decisions—even those they just voted against.

A few years ago for a short eight months, Dr. Conflict sat on a board. He left after being called a malcontent largely because of his lone nay vote against borrowing money for a Porsche to be raffled off in a fundraiser. The organization was bereft of disagreement, and this past July, it finally closed its doors.

The point is that dissent is not only healthy; it's essential. Do you honestly think that heated discussions reflect poorly on you as a leader? Quite the opposite. Because the vast majority of boards complain ad nauseam about boring meetings and a lack of red meat on the table, you're a saint, a hero; your meetings are exciting. A board that uses give-and-take discussion will always trump one using mere show and tell.

Perhaps you are concerned that calling for a vote is somehow antithetical to the board's work. The days of command-and-control directive leadership are supposed to be over, after all; participative leadership is in fashion. If you can't get everyone on the board on board, you have failed. But participative leadership in all circumstances is not good leadership at all. It's a foolish consistency, or the "hobgoblin of little minds," as Emerson says. Do you really believe that in a crisis, when time is at a premium, people want participative leadership? Please, what everyone wants is direction. And if you don't provide it, they will likely find someone who will—period.

There are numerous models for bringing issues forward to a group of people, including a board of directors. Some models are quite complicated, but here are two useful rules of thumb for whether to use directive or participative approaches using time as the key situational variable:

- If time is of the essence, lean toward directive leadership.
- If time is not of the essence, lean toward participative leadership.

Other situational variables to keep in mind include the type and intensity of pushback you might get, the power of those pushing back, whether you have all the smarts needed, and the stakes involved in the decision. Assuming that the first rule is true, go ahead and implement your suggestions.

Still, Dr. Conflict wonders whether there isn't a good reason why the two dissenters have pushed back. Maybe their acceptance is really important. Maybe it's not in your job description to implement suggestions without unanimous support. Or maybe, just maybe, your suggestions aren't really as good as you think they are. After all, a bad idea isn't improved by long-winded explanations; it's still a bad idea. So how about taking off the hair shirt for a minute and asking the dissenters what's going on with the pushback? What do they think should be done? And as long as you're at it, ask the other board members the same questions. Just remember: it takes a thick skin to be a leader, and it might not be pleasant to hear the answers.

Now what about those millennials? For purists, millennials are not yet out of elementary school, but most now combine echo boomers (those born between 1977 and 2000) and the Millennium Generation (those born since 2000). This generation is known by a variety of names, including Generation Y and Generation Next. They've also been called the Boomerang Generation, which is particularly apropos considering that during the current economic crisis, many moved back home.

No matter what you call them, though, they make up a third of the population, give or take, and are just now coming into their own. Though there is debate about how best to lead this generation, there is near-unanimity that its members are and will be high maintenance.

Though the phrase "What's in it for me?" has also been used to describe this generation, Dr. Conflict wonders how this is different from the attitude of any other generation. So what if they think in transactional terms of "What's in for me?" So what if they are concerned about their personal life and striking a balance with work? So what if they want a fair deal? And you don't?

The wonderful thing is that the millennials are straightforward about what they want. For sure, it will be harder to inspire them with visionary leadership, but that isn't such a bad thing. Indeed, there is a small but growing group of experts that argues that transactional leadership, which emphasizes reciprocity, is inherently more ethical than transformation leadership, which stresses charisma and vision.

In the end, it is not about what the millennials or boomers want but what we all deserve in the workplace: "respect, fair treatment, equality, balance, flexibility, appropriate feedback, job enhancement, and advancement opportunities." These goals were as important to our parents and they are to us now and as they will be to the class of 2030. Thank goodness this generation will be out there making us all more honest.

Dr. Conflict is the pen name of Mark Light. In addition to his work with First Light Group (www.firstlightgroup.com), Light teaches at the Mandel Center for Nonprofit Organizations at Case Western Reserve University. Along with his stimulating home life, he gets regular doses of conflict at the Dayton Mediation Center, where he is a mediator.

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The Takeaway

by the editors

The Nonprofit Ethicist

by Woods Bowman

When your boss does something harmful but the behavior is off-limits for staff and board discussion, how can you approach the situation ethically? The Ethicist addresses the pernicious effects of nepotism in the nonprofit setting.

What Do Donors Want?

by Cynthia Gibson, Ph.D., and William Dietel, Ph.D.

Well-known donor advisers Cynthia Gibson and William Dietel explore what motivates individual donors. Is it hard data produced through rigorous and costly evaluation, or is it a combination of factors that has little to do with strictly measurable factors? This article reviews recent research on giving and arrives at a more nuanced and recognizable picture of the "art and science of philanthropy."

Social Influences in Giving

by Rachel Croson, Ph.D., and Jen (Yue) Chang

While based on research conducted in the context of public-radio fundraising campaigns, this article offers larger lessons on effective fundraising techniques for all organizations. The research illustrates how fundraisers can use social information about other donors to encourage donors to give more.

Talking About Taxes

by Kim Klein

Many nonprofit budgets depend in part on taxes. But nonprofits have rarely involved themselves systematically in tax policy.

Now, as nonprofits find public money at risk, they also face increasing competition for philanthropic dollars from public agencies. Author Kim Klein says that in this environment, just becoming a better fundraiser doesn't cut it. Nonprofits must organize.

State Groups Tackle Tax Fairness

by Karen Kraut and Shannon Moriarty

A few examples of state-based tax policy advocacy illustrate what advocacy groups can do in their own environment to bring equity to the tax system.

Great Expectations: How Executive Directors Can Create Powerful Fundraising Partnerships

by Jeanne Bell and Byron Johnson

This article advises executive leaders on how to calibrate their own expectations and what to consider before hiring a development director. Though executive directors often seek a "silver bullet," this article counsels how to make a good hire rather than going after a quick fix.

The Myths and the Realities of the Commercial Gift Funds

by Rick Cohen

Author Rick Cohen explores the landscape of commercial gift funds, which distribute billions in grants from individual donors each year. Are there special access points? Is their growth good or bad for philanthropic giving? Cohen brings his research skills to bear on this growing group of philanthropic vehicles to ensure that you are well informed.

What Gives?

by Melissa S. Brown

Each year fundraisers await the release of the *Giving USA* estimates with anticipation. The data helps make sense of the potential trends and shifting priorities in nonprofits' working environment. But how does *Giving USA* derive its numbers? This article answers some long-standing questions.

The Changing Face of Workplace Giving

by John Coy

What are the trends in workplace giving? How has United Way's Community Impact model affected funding? How much have the sources for federated giving programs changed, and how has the recession affected giving? In this article, John Coy answers these questions, and many more.

To Fee or Not to Fee? (And Related Questions)

by the editors

Based on the book *Effective Economic Decision Making for Nonprofit Organizations* and reprinted from a 2004 issue of *NPQ*, this article offers a timeless roadmap for nonprofits by examining how nonprofits can use a fee-based structure. It explores whether nonprofits can charge for services, how much to charge, and how to make the transition to a fee-based structure.

Letting Go: A Leadership Challenge

by the editors

NPQ sat down with Deborah Linnell and Hez Norton of Third Sector New England and Tim Wolfred of CompassPoint Nonprofit Services to discuss the issues of executive succession during the recession. They have some surprising observations and several useful tips for executives and incoming directors.

Dr. Conflict

by Mark Light

Asked to lead an organization to change but blocked at every turn by colleagues, a distressed leader gets a reality check from Dr. Conflict.

A Strategic Nonprofit Reorganization Plan

by Grant T. Goldhammer and Ophelia Paine

A nonprofit organization finally gets the chance to operate on its terms.

Satire, *continued from page 64*

to solve as a grantee, not yours. No "business plans," "exit strategies," "building to scale," "diversification of funding," "earned-revenue strategy," and so on. Given the size of your endowments, it looks like sustainability should not be a problem. After all, you have no problem staying in business. We also think that by seizing the programmatic initiative and changing the balance of power between grantors and grantees, we'll have a good chance of attracting substantial future funding.

Capacity building. That's for us to know and for you to find out about! Seriously, the Operating Grantee® system is all about capacity building. We estimate that the changes we've outlined here will free up 25 percent to 50 percent of organizational resources for programs and projects that can directly serve community needs. And we do it without time-consuming training workshops and expensive foundation-funded "technical assistance."

Organizational effectiveness. You have to be kidding. At our sole discretion, of course. Frankly, on some days, we may just feel like horsing around on your dime. You better learn to live with it. (We can see this won't be easy for you.)

Program officers. We like our program officers. For the most part, they are a convivial and jolly bunch, and from time to time we absolutely should still socialize. They may still take us to lunch at fancy restaurants and invite us to high-end conference centers for extended retreats. We don't really see the need for such opulent facilities, but it seems to be a matter of cultural preference for foundation personnel. (Not to mention the lavish annual reports, and all that advertising on NPR.)

Program officers can also help process our invoices, and resolve all payment issues and problems. They have no other role and are specifically instructed not to inform their senior management or boards about any aspect of our work.

Program consultations. We reserve the right to invite you to meetings where you tell us your ideas—even though we may decline to use them or use them without crediting or compensating you. (We think you are familiar with this process).

Site visits. No site visits. If we need a fancy office from which to make phone calls and in which to hold meetings, we'll visit you when we travel to your city.

Collaborations and partnerships with other nonprofits. Sure, we will collaborate. But we'll figure this out, not you. No more complex program requirements

Frankly, on some days, we may just feel like horsing around on your dime.

and grant application guidelines from hell. (See the above sections entitled "Program autonomy," "Creative control," and "Streamlined grant application process.")

Terminology. Many of the terms and jargon mentioned above, including "branding," "collaboration," "organizational effectiveness," "evaluation," and "sustainability" should not be mentioned by you again—ever. Inappropriate use of terminology may result in additional surcharges on invoices. New terms and phrases will be introduced for you to use, such as "funder accountability," "board diversity," "After all, it's not our money," and "I guess we're just going to have to defer to the grantee perspective on that."

Sabbaticals. For professional enrichment, foundation staff members and executives will be sent on six-month sabbaticals at eligible nonprofits operating in the old-style fundraising relationships. A stipend at a community wage rate may be available.

Admittedly, this is a drastic departure from our previous mode of operation. We regret any disruption to your normal routine; but we believe that these changes are in our mutual interest. Further, our board and management have already signed off on this model, so these points are nonnegotiable.

Our decision to become an Operating Grantee® will greatly improve our community responsiveness, operating flexibility, and financial bottom line. From our point of view, it's much better to an Operating Grantee® than an indentured servant toiling on the neo-feudal Philanthropic Estates. We need Grantee-Driven Grantmaking® because we can no longer be constrained by foundation requirements and institutional structures that don't work for us. The choice is clear.

Arise, ye suffering grantwriters of the world, and throw off your chains! You have a world to win and nothing to lose, save an oppressive professional and occupational culture and vast reams of unnecessary program rules and application requirements.

Note: Power to the Pen Inc. has trademarked the terms Operating Grantee® and Grantee-Driven Grantmaking® to prevent unauthorized commercial use. In consideration of the greater public good, however, we hereby grant to all prospective grantees an unrestricted Creative Commons license to the Strategic Nonprofit Reorganization Plan. This creative program strategy should be fully open source and open to all who need it.

Grant T. Goldhammer is the CEO and **Ophelia Paine** is the COO of Power to the Pen Inc.

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A Strategic Nonprofit Reorganization Plan

by Grant T. Goldhammer and Ophelia Paine

To all foundation contacts and "funding partners":

Effective immediately, our nonprofit organization has reorganized and will henceforth do business as an Operating Grantee.® We've made this decision after extensive consultation with our board, senior management, other nonprofits, and external consultants. We believe that becoming an Operating Grantee® is the best way to serve our members, clients, and communities as well as our internal needs and the public interest.

Here are some key changes we've agreed on:

Program autonomy. We will no longer seek funding for specific projects of interest to the foundation community; instead, all future grants will support activities at our organization's sole discretion. This change will allow us to develop programs that best meet the needs of the communities we serve and provide for greater public input and accountability.

Creative control. We will design our programs and strategies for maximum impact. But we reserve the right to engage in creative work that has unquantifiable, nonmeasurable results and that is specifically not replicable or a model of any kind.

Evaluation. All activities will be evaluated by reference to our own program guidelines. We reserve the right to change these guidelines at any time. Assuming generous additional funding is available, external evaluators may be hired under contract to us and at our sole discretion.

We reserve the right to use your ideas without crediting or compensating you.

Streamlined grant-application process. We send you an invoice, you send us the money. No staff or board review on the funder side. This streamlined approval process will reduce meetings and bureaucracy as well as free up foundation staff and funds for expanded grantmaking.

Budgets. Aggregate budget figures will be provided to you and, at our discretion, adjusted upward.

Personnel benefits. These benefits will be at least as good as yours.

Financial reporting. After the money is gone, we'll send you a new invoice.

Media. Thanks for offering to help, but we'll write our own press releases and send them out. We will formulate and execute the media strategy. You can review what we've produced when you see our coverage. Sorry, we can't include any prewritten taglines, such as "Promoting genteel and refined culture for sensitive citizens since 1906" or guarantee that you'll be mentioned at all.

Branding. All promotional activity will build our nonprofit brand, unless we choose to operate anonymously and do good deeds without callously claiming credit for them.

Web sites. The Web content we produce is for our site, not yours. We require a large grant-funded technology staff that's at least twice as large as yours. You must link your site to our site prominently. We, on the other hand, will link to your site only if we wish to.

Copyrights and patents. Have you read this far? The exclusive property of the Operating Grantee, of course.

Sustainability. We'll just keep sending you invoices as needed. This is our problem

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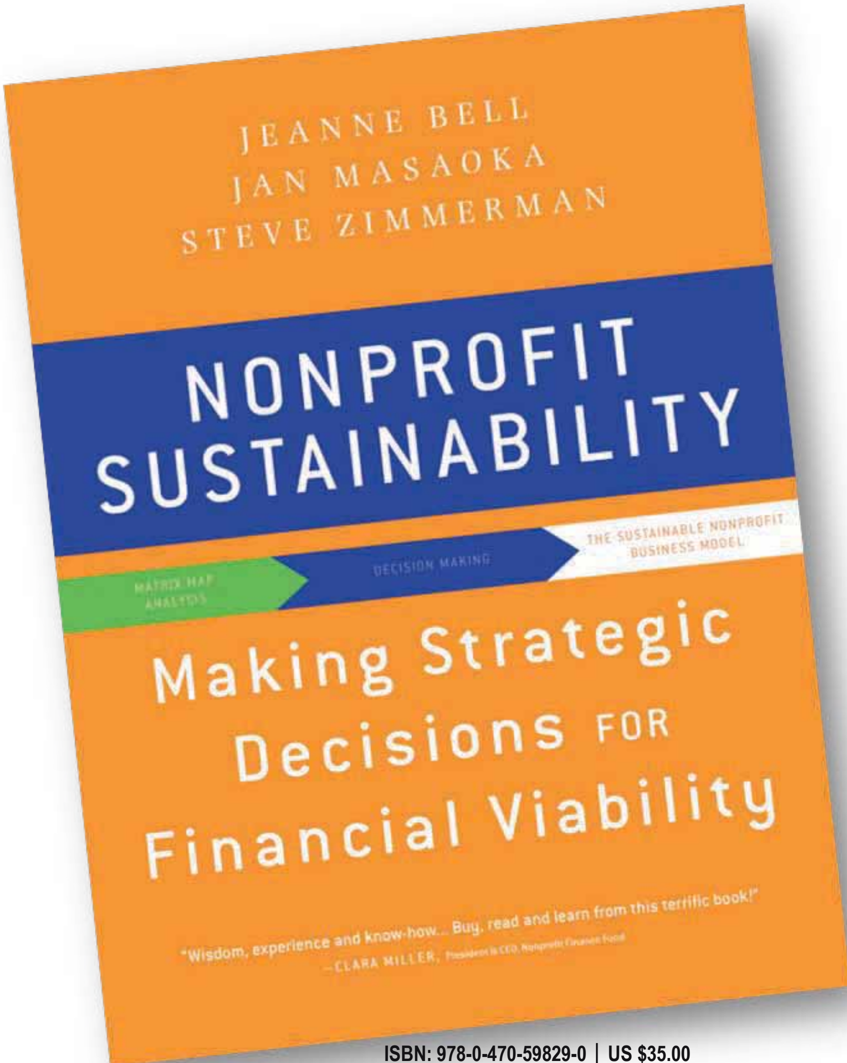

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NONPROFIT SUSTAINABILITY

Making Strategic Decisions for Financial Viability

Jeanne Bell | **Jan Masaoka** | **Steve Zimmerman**

Strategic tools for long-term financial and programmatic sustainability.

This book offers nonprofit executives and board members a simple yet powerful framework for analyzing and adjusting their business models for greater organizational sustainability. It introduces the Matrix Map, a practical tool for determining the current impact and financial performance of core programs and fundraising activities. It also provides guidance on how leaders can make strategic business decisions on an as-needed basis, rather than waiting for episodic strategic planning. And the book's guide to income strategies will be useful to nonprofits working to diversify their funding for financial viability.

Nonprofit Sustainability includes numerous accessible examples to illustrate how executives and board members can—without time-intensive and costly planning processes—use the Matrix Map to make disciplined business decisions year-round.

Jeanne Bell, MNA (San Francisco) is CEO of CompassPoint Nonprofit Services, a consulting, training, and leadership development organization serving community-based organizations. She has more than 15 years of management, executive, and consulting experience in nonprofits. Jeanne co-authored *Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success* (Fieldstone, 2005), and her published work includes numerous studies of nonprofit executive leadership. She is on the Editorial Committee for *The Nonprofit Quarterly*, serves as Chair of the Alliance for Nonprofit Management, and is a board member for the Nonprofit Insurance Alliance of California and for Intersection for the Arts.

Jan Masaoka (San Francisco) is a leading nonprofit writer and thinker; she writes for and edits Blue Avocado, an influential online magazine for nonprofits with 60,000 subscribers. Jan's column Board Cafe was compiled into Best of the Board Cafe (Fieldstone, 2003, 2009), and her book HR for Nonprofits will be published by Nolo Press in 2011. While executive director of CompassPoint Nonprofit Services, she was named Nonprofit Executive of the Year by Nonprofit Times, and California Community Leader of the Year by Leadership California. She is a board member of New America Media and Editorial Advisory Board member to BoardSource and to Bridgespan.

Steve Zimmerman CPA, MBA (Milwaukee), is principal at Spectrum Nonprofit Services, a nonprofit consulting and training firm specializing in business planning, strategy and financial analysis for nonprofits and foundations. Steve worked previously as a Projects Director at CompassPoint Nonprofit Services as well as Associate Director, CFO and Development Director for other community-based nonprofit organizations. He writes the finance and strategy column for *Blue Avocado,* an online nonprofit magazine with 60,000 subscribers, and has also written for *The Nonprofit Quarterly* and BoardSource. Steve is a board member of Jewish Family Services and serves on the finance committee of Radio Milwaukee.

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