

Donors Aren't Always Right. Here's How to Sidestep Their Misguided Ideas

By Felix Salmon

Welcome to 2013, and for many charity executives, another year of hitting up donors—and potential donors—for money.

There's nothing you won't do for these people.

You will flatter them up and down, you will take all their advice (solicited or otherwise) very seriously, you will feed them expensive food, put their names on buildings, thank them profusely in public, fly them around the world, seat them next to celebrities—you name it. Or actually, they name it; you'll do it.

Without donors, your entire organization would grind to a halt—and therefore it's easy to behave as though a donors is always right.

But the donor is not always right. In fact, most of the time, donors are wrong. Let us count the ways and give those donors a bit of the unsolicited advice they're so happy handing out to nonprofits.

Meanwhile, let's also ask ourselves about the degree to which we're all encouraging and enabling this kind of behavior.

It's time to tell them to stop:

Meddling in internal workings of charities they support, even when they are not on the board. Tell them: If you've done your homework, dear rich donor, then you're giving to a certain charity precisely because you admire the way it gets things done. If you don't admire the way it gets things done, then you should find a different charity: There are many very good ones out there.

What's more, your experience in the for-profit world is not nearly as valuable as you think it is. The charity's executives live these issues every week; they know them better than you do.

Setting up their own foundations. This is the classic waste of money and resources. Foundations are expensive things to run, both in overhead costs and opportunity costs.

A well-run foundation will be staffed with qualified philanthropic professionals; such people are not easy to find, and even if you do find them, the fact is that their talents could almost certainly be put to better use elsewhere.

The main reason people set up foundations, rather than just giving their money to the needy, is that foundations are a have-your-cake-and-eat-it-too form of philanthropy: You get to say that you've given your money away while at the same time keeping ultimate control over it. That's great for your own personal power and influence, but it's almost never the most effective way to give.

Personal foundations are also the easy way out, a way of saying, "I know I want to give my money away, but I can't be bothered to actually do it yet."

If you're committed to philanthropy, you try to improve the world rather than trying to create a tax dodge that gives away the bare minimum every year.

Giving to Harvard or any other large endowment. The Harvard endowment currently stands somewhere north of \$30-billion. If it grows at 5 percent a year, that's \$29-million per week. The marginal utility of your donation is probably smaller here than anywhere else. The general principle here is this: Giving money to a well-endowed institution is just another way of not actually doing anything useful with your money.

Paying for architecture. It's generally easier to raise money for a new building than for continuing operations, which is one reason charities often embark on huge capital campaigns. But such campaigns often end in tears, with cost overruns that necessitate staff cutbacks or even high-level resignations. Leave the ego-infested world of architecture to others: your money can always be better spent elsewhere. Mission-building is more important than edifice-building.

Encouraging mission creep. If an organization is doing great work in Cambodia, don't offer it a large amount of money to do the same thing in Nicaragua.

Donations with strings attached are bad; donations that essentially force a nonprofit to do something it never particularly wanted to do in the first place are much, much worse. Examples might include most cancer wings at hospitals or a dedicated yoga center at a university.

Charities are under constant pressure to move away from their missions and toward where the money is. Don't be part of the problem.

Kidding themselves that their mere presence on the board, or their "celebrity endorsement," is valuable. It's your money that's valuable—the money you give to the organization and the money you can persuade others to give to the organization. The main value of your presence on the board is the implicit or explicit financial commitment that comes with it.

You are a rich and important person, but no one is going to give money to this organization just because you did.

Teasing about a forthcoming gift. Charities are forced to put a lot of effort into buttering up donors and potential donors. Don't waste their time. If you're going to give money, give money. If you're not, then say so, clearly.

Confusing philanthropy with social climbing. Philanthropy is one way of feeling better about yourself. Buying the admiration of your friends and peers by ostentatiously giving money to their favorite causes is another. Do not confuse the two.

Believing that going to charity balls constitutes charitable activity. Some people actually enjoy these things. If you're the kind of person who likes to dress up in black tie to spend an evening in an orgy of rubber chicken and self-congratulation, then by all means go to as many of these things as you like. But if you're not that kind of person, and you feel that you can't politely decline, then just take the money you would otherwise spend on a table and donate it to the organization directly. That way the charity gets all of the donation, and you get four hours of your life back.

Putting their name on a building—or anything else, for that matter. The lesson here is pretty simple: Have some humility.

But there's an important lesson for charities, too: Stop making giving a transaction, already!

Nowadays, every donation is a tit-for-tat operation.

Give a small amount of money and you get a yellow wristband; give a large amount of money and you get to rename the entire organization you're supporting after yourself. It's an invidious trend, and it's not helped if charities engage in a stupid arms race to see who can offer the tastiest rewards.

All too often, meetings between fundraisers and donors turn into a kind of bargaining process: If you give us this, we'll give you that. The conversations ignore the important—how the charity will use the money to improve the world—and concentrate instead on the banal: what the charity can do to publicly thank the donor. Charities should stop pretending that giving away money effectively is fun or easy. Philanthropy has always been self-serving, in large part, and that's never going to end. But all too many nonprofits are part of the problem. There's a destructive arms race out there these days, in which each charity thinks that it needs to one-up the last one to attract those precious donor dollars. That arms race helps no one, so let's stop it.

Felix Salmon is a columnist at Reuters. This article is adapted from a longer article he posted on his blog for the news service.