Table of Contents

Charities rely on donations voluntarily given. In a transaction between a charity and a donor, the value that passes from one to the other is the promise that the service for which the donor implicitly contracted will, in fact be delivered by the charity. The service recipient is society, a community or a party unknown (and frequently unidentified) to the donor. The donor's belief that the charity will use the contribution purposefully, effectively and efficiently for the charitable mission is the foundation of the philanthropic exchange.

(Source: *National Society for Fund Raising Executives)*

Introduction

It is often said that there is no such thing as a free lunch. When someone gives something to your organization, they almost always expect something in return. Sometimes all they wish is for their donation to be acknowledged and appreciated. Others may require much more. This is not intrinsically wrong or unethical but difficulties can arise when both sides are not clear on exactly what the expectations are. If expectations on both sides are communicated fully and agreed upon in advance, it is much less likely that problems or misunderstandings will occur later on.

Fundraising in a nonprofit organization is like a beating heart in the human body — it enables the circulation of financial resources to provide service delivery to the far reaches of the organization. When the beating stops, even if momentarily during a transition of leadership, the organization may suffer serious, if not irreparable, damage. When the top position at a small nonprofit is vacated, the board must act swiftly to replace the outgoing CEO, or risk losing precious time on the fundraising calendar. Most CEOs describe their fundraising activities as an ongoing activity. Environmental conditions such as the organization's good reputation in the community, the availability of capable volunteers to lead a fundraising campaign, and changed priorities of a major donor, can also affect the nonprofit's ability to raise the funds necessary for survival and ultimate success.

Most nonprofit CEOs view fundraising as an integral and necessary activity. It has to be done. Some cynically or pessimistically view it as a necessary evil. Others approach fundraising with the enthusiasm of a youth sports coach, seeing a dual role of getting the job done and rallying the team needed to support the effort. And fundraising exhilarates a smaller number of CEOs who see the process as an elaborate puzzle or challenging game. Some nonprofit executives experience all of these viewpoints as they pursue the elusive dollars needed to keep their charities afloat. Whether you approach fundraising with cynicism or excitement, it is essential that you understand the importance of fundraising and consider its risks in addition to the rewards in your efforts to keep the heart of your organization steadily beating.

Your Organization's Reputation: A Pearl Beyond Price

In most cases, the asset at greatest risk in a fundraising activity is an intangible one: your nonprofit's reputation. Preservation of reputation, stature, and credibility is one of the weightiest burdens on a nonprofit CEO. Without this priceless asset, most nonprofits would find it impossible to survive. The downfall of many nonprofits can be attributed to the erosion of reputation. During the past decade, the fundraising follies, ethical missteps, and collaboration catastrophes of countless nonprofits have made headlines. These scandals have had positive and negative effects on the nonprofit sector. On the positive side, the call for accountable organizations emerging from the dust of scandal is causing a growing number of nonprofits to look inward at their practices and identify long-standing weaknesses that require adjustment. The call for accountability has led to better run, more responsible organizations that give stakeholder concerns and expectations the serious attention they deserve.

Unfortunately, these scandals have cast a pall on the nonprofit world negating the tremendous work and contributions made by so many charitable organizations. This latter phenomenon has made it more difficult for nonprofits to sustain their support. Funders and supporters have become increasingly cynical and a nonprofit must now convince a potential supporter that not only is its service delivery worthwhile, but also that the organization is administered responsibly and is deserving of charitable support. On top of that, the nonprofit sector continues to grow at an unprecedented rate. Recent estimates place the number of charitable nonprofits at more than 600,000, with the total number of nonprofits nationwide exceeding 1.5 million. No slowdown in growth is expected in the years ahead as governments continue to devolve service delivery and boundaries of what constitutes a nonprofit continue to expand. That means that competition for a limited pool of funds will grow more vigorous every year.

The purpose of this book is first to raise the consciousness of nonprofit fundraisers throughout the sector about the risks that accompany the rewards of fundraising. Second, we hope to provide a practical framework through which nonprofit CEOs, boards, and others engaged in fundraising can address the risks and move forward responsibly. It is not our intent to discourage any of the forms of fundraising discussed in the text. Rather, we hope to inspire those engaged in fundraising to approach this vital, important work with greater responsibility and care. To be engaged in the business of nonprofit fundraising is to grapple continuously with challenges. Ethics, common sense, and a realistic attitude are necessary to survive. It is our hope that this book will increase awareness about these sometimes difficult issues while helping the reader to find that although there still is no such thing as a free lunch, you can at least get what you pay for.

In Chapter 1 we consider the risks associated with raising funds. Current giving trends and the growth of the nonprofit sector are just two of the factors affecting fundraising. We also explore the role of the board and others in your nonprofit's fundraising efforts.

In Chapter 2 we explore the foundation of every fundraising program, the budget. How should you approach the budgeting process to reduce the likelihood of falling short of your goals? How should a nonprofit balance the need to be ambitious and realistic in projecting fundraising outcomes?

In Chapter 3 we take a closer look at the solicitation of foundation grants. Has raising funds from foundations changed significantly in recent years? Are there special risks associated with raising money from foundations, large and small, national and community-based?

In Chapter 4 we look at individual donors. Individuals contribute an estimated 85 percent of all of charitable donations. Individual donors range from active volunteers to anonymous benefactors. Donations come in the form of cash, checks, and pledges for ongoing support to gifts of equipment, property, stocks, or estate proceeds. Soliciting money from individuals has become hugely complex in an era of sophisticated, personalized direct mail, and with the availability of charitable remainder trusts and other instruments that facilitate a range of deferred or planned giving.

In Chapter 5 we look at corporate support. Critics of the proliferation of corporate support programs decry the commercialization of the charitable sector through corporate sponsorship of youth recreation programs, public schools, mentoring programs, and other activities that have historically been free from commercial sponsorship. But the lure of corporate support is compelling for nonprofits that are facing stiff competition, the loss of government funds, or lack of resources needed to start a sophisticated direct mail campaign.

In Chapter 6 we explore the rapidly changing world of collaborations and partnerships. The exponential growth of the nonprofit sector has been matched by the phenomenon of joint ventures, partnerships, and other relationships. Nonprofits are working with other nonprofits, public entities, and corporations. These collaborations often enable nonprofits to reach new clients, expand service delivery, or increase efficiency. Many develop at the urging of traditional foundation funders, who see the potential benefits of partnerships. Collaborations and partnerships represent an exciting frontier for many nonprofits, but they are also risky. We'll explore several ways to minimize the risk of surprise, disappointment, or crisis and improve the chances that all parties to a collaborative venture will be satisfied with the outcome.

In Chapter 7 we examine the challenges presented by restricted funding, including government and private grants. Many fundraisers bemoan the declining number of funders providing unrestricted grants for a nonprofit's overall operations. Funders cite their interest in supporting innovative approaches to problem solving as the top reason for restricting grants to a specific purpose. Each nonprofit should have a strategy in place for managing restricted funding, before it solicits these funds. Two unsuccessful dynamics are common: first, nonprofits may try to couch general operations as innovative projects in order to gain access to restricted grant funds, and second, nonprofits may scramble to come up with innovative programs and projects that somehow address the organization's core mission. This posturing may heighten risk as the emphasis on gamesmanship overshadows an honest accounting of the strings that accompany restricted funding. In this chapter we will suggest a strategy for evaluating your readiness to manage restricted funds and meet the intricate web of donor/funder-imposed requirements.

Chapter 8 contains a list of resources, including organizations, publications, and web sites. We urge readers to refer to these resources — many are free — as you develop a strategy for managing fundraising risk in your nonprofit.

Finally, two useful reference documents are featured as appendices:

- ❑ the National Society of Fund Raising Executives' *Code of Ethical Principles and Standards of Professional Practice;* and
- ❑ the National Charities Information Bureau *Standards in Philanthropy*.