Chapter One

How Nonprofits Think (or Don't) About Money

To fully understand the funding tribulations that community-based organizations are facing in the first decades of the twenty-first century requires that we examine two endemic flaws, related to the sources of funding, that ripple through the nonprofit sector.

The first flaw is that although nonprofits know they need money to operate, they don't want to face the realities of how that money needs to be raised, so they wind up looking for money in the wrong places.

The second flaw is the lack of understanding and comprehension in the sector, as well as in the public at large, about the role of taxes in providing funding to nonprofits. As a result, the sector fails to demand that the government provide appropriate funding for services that should be the government's responsibility.

First Major Flaw: Nonprofits and Wishful Thinking

Most nonprofits tend to engage in a form of wishful thinking about how they can raise the funds to do their work. Having heard of large gifts made by foundations, corporations, and some wealthy people to some groups, they chase after these sources of funding, usually in vain. To understand why it is largely futile to seek such funding, we need to see these sources in the context of all the funding that goes to the nonprofit sector.

There are three sources of money for all nonprofits: the government (public sector); foundations, corporations, and individuals (collectively known as the private sector); and earned income, such as from fees and products. Of these, government funding from its various branches (federal, state, and local) makes up about one-third of all the funding to nonprofits; private sector funding accounts for about one-fifth; and the rest—about half—comes from earned income. For most small secular nonprofits, however, as well as for almost all religious organizations, most of their money comes from the private sector, even though many of these organizations also have a revenue stream from rental of space, sale of products, or fees, which can range from contributing a tiny portion of their budget to providing a significant percentage of income.

Private Sector Giving

People new to nonprofits often think that foundations and corporations give away most money. This mistaken impression comes from the fact that, when they do give, foundations and corporations often give sums in the thousands of dollars, and they often publicize their giving widely. In fact, however, as noted in the preface, the majority of the money given from the private sector comes from individuals (both living and through bequests). Only about 10 percent of all giving to nonprofits comes from foundations and only about 5 percent is from corporations. (The exact percentages vary 2 or 3 percentage points from year to year. For exact numbers in any given year, see the report called *Giving USA,* issued by the Center on Philanthropy at the University of Indiana.)

Further, of the money given by individuals, the majority of gifts come from households with incomes of less than $90,000—which happens to be 80 percent of U.S. households. Certainly, some households among the other 20 percent of the population, and particularly among the 6 percent of the population that earns 33 percent of all income earned in the United States, are very generous. But the most generous people are still those in the income ranges that contain the most people: middle-class, working-class, and poor. This compilation of statistics points to one important conclusion: the majority of nonprofit organizations can start a successful and profitable individual donor program to raise most of the funds they need to do their work without wealthy donors. As the program builds, the organization will attract more and more donors, some of whom will be able to make very large gifts.

The myth that most money comes from foundations and corporations keeps many organizations from doing the work they need to do to get their funding from the most likely source: people in their communities. They may believe their constituents are too poor to give, or that foundation funding is easier to raise than "a lot of little gifts," which is how they interpret an individual donor base. Many believe that individuals give primarily to their religious institution and will not support secular causes. In fact, although about one-third of all money given away does go to religious organizations, that's because about one-third of nonprofits are churches, synagogues, mosques, or temples. In other words, faith-based organizations raise only their market share. Further, and perhaps as important, people who give to religious groups are more likely to give to secular organizations than are people who have no religious affiliation.

Because organizations believe that most charitable dollars come from foundations, corporations, or wealthy people, or even from government, those that are big enough will tend to hire "development" staff who are charged with bringing in the money. Rather than understanding and supporting the fact that the job of a development director is to coordinate the fundraising efforts of the entire organization, groups will split their development staff off from the rest of the group, often even excluding them from program staff meetings, even though people who discuss the group's program with donors and funders need to be as articulate as anyone else about it. Even development people who are included in meetings or planning sessions are often brought in to provide information rather than to offer their opinions.

In some organizations, development directors are paid on a different scale than other staff, leading to misunderstanding and resentment. For example, in many organizations the development director is paid the same amount as the executive director—or more—even though the development director and program director are equal on the management chart. Sometimes development directors are given a bonus at the end of the year when no other staff is rewarded this way. Sometimes they are paid on commission—a practice highly frowned on in the field, for a number of reasons. (See premium content for the article, "Why Good Fundraisers Are Never Paid on Commission.")

Though having development staff is a good idea (one I recommend), their job is made difficult by being measured only by how much money they bring in, even though they may have little control over all the other variables that affect fundraising—such as the timeliness and appeal of program activities—and in spite of the fact that there are many other equally important measurements of development success, including the number of donors acquired, quality of materials, thoroughness of research, and adequacy of records. Especially if they are to write proposals to get grant funding, development directors may be spending a lot of time and organizational resources trying to raise money from a source where either the money is limited or its availability is of limited duration. On the other hand, if they are charged with building a base of individual donors with no or little help from board or staff, their efforts will be equally frustrating. A lone development person does not have enough hours in the day to do all that must be done to maintain and expand a donor base.

Reluctance to Talk about Money

The second part of the wishful thinking flaw is that the fact that ordinary people give away money collides with many people's deep-seated reluctance to ask for money. I have rarely had someone disagree with the premise that, over the long term, raising money from a broad base of individual donors would provide an organization with the freedom to stay mission driven, the stability to make long-term plans, and the capacity to grow in good times and bad. But I rarely find an organization that truly acts on that knowledge, in large part because talking about money remains taboo in our culture. The consequence of that taboo is that some people find asking for money demeaning and others are afraid that if someone actually responds to their request by giving the organization money, then they will owe that donor a personal debt. Perhaps that person will ask them for a donation in turn, and they fear they can't afford to give to every cause their friends are involved in.

People bring a lot of mixed meanings to money. For example, if we say of someone, "He does very well" or "She earns buckets of money," we don't mean simply that this person has a good deal of money at their disposal; we also tend to mean that by dint of this person's success—however it was come by—he or she enjoys a higher social status than someone who doesn't have very much money. The many sayings about money sometimes contradict each other: "It is more blessed to give than to receive" contrasts with "A penny saved is a penny earned." The values of thrift, frugality, and prudence live alongside those of generosity, liberality, and open-handedness. One person may think of himself as careful while his colleagues may find him stingy. "Money doesn't buy happiness" is often followed by the rejoinder, "If you think that, you don't know where to shop." Or "The Golden Rule means that the person with the gold, rules" contrasts with "You can't take it with you."

All of these shorthand ways of thinking about money that, with all their contradictions and discomfort, have permeated our culture mean that many organizations find that their fundraising efforts are hampered by the reluctance of their volunteers and board members to ask for donations. Board members who are in every other way wholly committed to an organization have told me that they would rather rip their own fingernails off than ask for money.

Over the past thirty years, there has been a lot of effort in both the fundraising and finance worlds to begin to break down the taboos around talking about—and asking for—money, but it is very difficult to expunge them from the cultural psyche. To be sure, progress has been made. We can see this generationally: in a room full of board members or volunteers, the younger people will have a shorter list of inhibitions about money than the older people, regardless of race, class, or gender. But we have a long way to go, and the fundraising profession needs to help lead the way—not just in breaking down current taboos, but also in creating an attitude toward money that emphasizes using it for the common good, and in seeing money as a tool for creating the society we want.

The Politics of the Money Taboo

The taboos we feel around talking about and asking for money aren't just random cultural baggage. They serve a very important cultural agenda. Their main purpose is to maintain the dominance of a small group of people who have a great deal of power in a capitalist system. For example, if I can't ask for money, I will be shy about asking for a raise. If I can't ask someone at my workplace what they earn, or if it is "not done" to reveal my salary to my coworkers, I will not learn that I am paid more because I am white, or less because I am a woman. Children show us that our inability to ask for money is strictly learned behavior. Children have no trouble asking for money, nor do they take offense when the answer is no. Just as for other things they want, they believe in asking frequently—they think it is part of what they have to do to get what they want. As they get older, they learn that to fit in to this society, they must stop being so straightforward about money. However, those of us who question "fitting in" must also question this money taboo. In fact, if we won't deal with money, learn how it works, and be willing to ask for it, we who work for social change wind up collaborating with the very system our work is designed to change.

Seeing our inability to ask for money in a more political context helps us overcome our anxiety.

Reluctance to Ask Affects Our Dealings with People Who Give

Our reluctance to ask for money for our work not only hinders getting friends or colleagues to give but also inhibits us in how we deal with current donors. Our embarrassment about asking carries over into talking with or writing to people about their giving. This reluctance, coupled with segregating development directors from the larger program work (and, meaningfully, not integrating development into the program work), contributes to the disorganization many nonprofits experience in their fundraising. The sending of donor communications such as thank-you notes, newsletters, renewal letters, and annual reports are seen as functions separate from running the organization, so they go out late or not at all. Nothing is personalized, and a donor has no reason to think that the organization even notices his or her gift.

Let's take an example. A board member invites a friend to join an organization. The friend joins and receives a thank-you note from a staff person; in subsequent years the friend gets a form renewal letter. The board member does not want to embarrass his friend by sending a renewal letter and putting pressure on the friend to give again. However, from the friend's viewpoint, the board member does not seem to care one way or the other about whether he renews. In fact, the board member doesn't even seem to care that he gave in the first place, as the thank-you note wasn't from him!

Here's another example: an organization writes a compelling direct mail appeal and hundreds of people respond. However, all the subsequent appeals to these new donors say the same thing as the first appeal. They carry no acknowledgment of the first gift and no sense of building a relationship with the donors. Or an organization offers a quarterly newsletter as a benefit for giving, but the newsletter comes out only once a year. Or an organization has a sign-up box on their website where a donor can get the group's e-newsletter; dozens of people sign up, but the e-newsletter never materializes.

What has happened in all these examples? Most likely, the executive director or development staff is overwhelmed with work, while there is an underwhelming involvement of volunteers in fundraising, caused in large part by their deep anxiety about asking for money. As a result, the organization has a chronically high turnover in donors, with many giving once and not again, and with the organization soliciting them over and over and then having to replace them with new donors who will be treated and alienated the same way. Much money—and time—is lost in this scattershot approach to fundraising.

Second Major Flaw: Not Understanding the Role of Our Tax Dollars in Funding Nonprofits

The second flaw among nonprofits when it comes to sources of funding takes the form of a philosophical dispute, or impasse, in coming to an understanding about the role of taxes. Since the Reagan presidency, and particularly during economic downturns, federal, state, and local governments have cut funding, especially from public services, with little consequence.

The public simply does not demand that public schools, public libraries, public pools, public hospitals, or public parks be funded by the public through taxes.

Mirroring the public at large, people in nonprofits fall all along the spectrum in what they believe is appropriate for the government to fund—from those who believe that all social services, arts, and culture should be entirely tax supported; that our country should have universal health care, universal education, and a guaranteed annual income; to those who favor government funding for some of these elements but not all; to those who believe government should mostly stay out of private lives. Those at the "less government support" end of the spectrum tend to think that with lower taxes, people will give away more money and the lack of government funding will be mitigated by private donations.

Many people, whether they be for or against using taxes to fund social benefits, experience government as inefficient. Those who believe that taxes should pay for social services are also often critical of government waste and bureaucracy. Those who believe that the government should pay for as little as possible often support a strong military, which uses the lion's share of today's tax dollars, and those who believe in using taxes more widely may also resist paying for war. When issues of public policy—such as gun control, reproductive rights, charter schools, prisons, or environmental protection—are discussed, the lines will cross and recross a number of times.

Those in the nonprofit sector are as divided as people throughout the nation on these issues, and those in nonprofits whose work encompasses public policy and tax issues debate each other and provide the research and information for the debates carried on by politicians and commentators.

Most taxpayers often see the issue in very practical, if narrow terms—they would usually rather pay lower taxes. Although they will support federal tax cuts, they will also vote for bonds to improve the schools, or to pay for parks and wilderness areas, or for bike paths. These actions show that they understand the role of taxes in their local communities, even if they do not see the benefit of a large federal government. Because our tax structure is regressive—

a higher percentage of income is paid in taxes, including sales tax, by those in the middle class—it is hard to make the case that people should pay more taxes.

At the same time, it is clear that private funding cannot replace government funding for services that affect large swaths of the population. There just isn't enough private funding to ensure a decent level of education, health, and other services to the entire population. What is required, then, is nonpartisan education about the role of taxes, including a discussion of the way taxes are levied and the types of taxes we pay. For example, in states with no state income tax but high sales tax, efforts to institute an income tax usually fail, even though it can be shown that poor and working-class people will have more money by paying state income tax if concurrently the sales tax is lowered. In another example, Americans will generally favor lowering the capital gains tax even though many people will never be faced with paying capital gains tax and would be better off if capital gains were taxed at the same (higher) rate as income tax.

Estate tax (insidiously and incorrectly renamed the "death tax" by conservatives) is the most obvious of the problems in the tax debate. Estate tax is a redistributive tax that keeps us from becoming an aristocracy by trying to prevent a small group of extremely wealthy individuals from passing on large sums of money to their heirs. There can be no such thing as even a rough social equality when some people are born with no financial assets at all and some are born with millions of dollars. Health, education, self-confidence, and opportunity are related to the environment in which you grew up, and that is influenced by what parents inherited and are able to pass on in turn to their children.

Only 2 percent of estates are large enough to warrant paying estate tax, yet many Americans, who probably sincerely believe in equality, will vote to abolish the tax altogether—an indication of the skillful way conservatives have corralled public thinking on the issue. On the opposite side, some nonprofits whose mission is to educate people about the economy and taxes have often been effective in changing minds in this debate. For example, United for a Fair Economy enlisted a number of very wealthy people—such as Bill Gates, Sr., and Warren Buffett—to speak in favor of maintaining the estate tax. Hearing very wealthy people talk about the importance of the estate tax is both inspiring and convincing; in the long run, we can hope that such education will ensure that we keep the estate tax and, in fact, broaden it to include more estates.

The discussion about estate taxes is not simply academic. The revenue from taxes pays for some of the essential work done by nonprofits, and when there isn't enough tax-funded support, all nonprofits turn to the private sector for support, where there is not enough money. Further, nonprofits are bolstered by the tax benefits wealthy people receive from making donations from income, capital, or estate. For that reason, the tax debate should be of concern for fundraisers and for the nonprofit sector as a whole, yet historically, except for organizations specifically working on tax reform, the nonprofit sector has tended to stay out of the debate.

Unlike many Western democracies, we in the United States do not have a national consensus on the role of taxes. It is unlikely we ever will without a much more informed debate on this issue, and a lot more public education. If we don't want nonprofits to be at the mercy of each successive government administration in terms of the availability of government funding for any particular issue, we must begin this education now in all our organizations.

Educating Your Constituency

Your fundraising program cannot be separated from the macro issues I have discussed here; in fact, an exciting challenge is to integrate fundraising into all your other program work and also use your nonprofit (whatever you do) to help educate your constituency about all the larger issues I have raised here. Start with yourself, your staff, and your board. Work with other organizations to hold town halls and teach-ins. We are a country capable of enormous and swift change, and nonprofits are capable of providing leadership for this change. We simply need to recognize the need—and begin.