

And You Thought Public Perception of Congress Was Bad

Public opinion is a permeating influence, and it exacts obedience to itself; it requires us to drink other men's thoughts, to speak other men's words, to follow other men's habits.

—WALTER BAGEHOT, "THE CHARACTER OF SIR ROBERT PEEL"

The money never gets to the people who need it." That's the familiar refrain we hear whenever the subject of charity comes up in casual conversation.

A Google search for "charities waste money" generates 3.6 million results—about twenty-five times more results than a search for the phrase, "charities use money wisely." It hardly constitutes a scientific inquiry, but it probably means we can conclude that people who don't trust charities outnumber people who do.

Similarly, people's comments in the blogs, articles, and forums picked up on a simple Internet search reveal a pervasive public distrust of how charities conduct their business. One person wrote about not understanding why charities waste money on pens and note pads when they could be using that money to help the cause. Another devised a whole new (and very problematic)

approach to giving—circumventing charities entirely—to avoid “charity waste”: “I never donate a dime to a huge charity. . . . What I like to do is direct donations into what I call ‘micro-causes.’ . . . For instance, if the *NY Post* writes about a house burning down in Brooklyn and [about] a now-homeless family—put [the family] up in a hotel. . . . [That way] you know that every dollar is being put to work exactly the way you want it to be.”¹

Other comments, like this one from a watchdog blog, were critical of specific charities: “The American Cancer Society spends 9.6% of its revenue on administrative expenses and another 21.8% on raising more money. Thirty cents out of every dollar you donate won’t go towards anything cancer-related.”² Really? Raising money to make cancer research possible isn’t cancer related? Although targeted toward a single charity, the assertion exemplifies the illogical yet widely held view that money not spent directly on what is perceived as “the cause” is money not spent on the cause at all.

Sentiments like these are available prefabricated for anyone in the market for an impassioned opinion on the subject, and they get distributed free of charge by the media and the masses. De Tocqueville said, “In the United States, the majority undertakes to supply a multitude of ready-made opinions for the use of individuals, who are thus relieved from the necessity of forming opinions of their own,” or, as a good friend of mine says, people are all too prone to mistake certainty for knowledge.³ He’s right. And because the demand for cheap, prepackaged oversimplifications of complicated subjects is very high and because, in some cases, people are looking for a quick excuse not to give, these off-the-shelf positions proliferate and quickly harden into stereotypes.

As a result, Americans are convinced, in large numbers, that charities waste money—they spend too much on “overhead” (never mind what that word actually means) and too much on executive salaries, offices, hotels, meals, trips, fundraisers, conferences, and staff. In the end, most people believe that the money donated doesn’t really go to “the cause.” Of course, “the cause” is defined extremely narrowly: if hunger, then soup—but not the spoon, the bowl, the stove, the fundraiser that got the money for the stove, or the postage on the thank-you note sent to the donor who donated the money for the stove. Just the soup molecules themselves.

A History of Suspicion

Studies and history consistently confirm this public sentiment. Documented public distrust of charities dates back to the mid-1800s. People were suspicious then that philanthropy was just a way for the wealthy to “atone” for their success and evade taxes.⁴ A few decades later, “charity organization” societies began to develop, not to provide services but to “monitor the aid that was being given and to uncover fraud.”⁵

In the 1970s, public concern about fundraising and administrative costs in charities grew.⁶ Historian Robert Bremner notes that by the end of the 1970s, “twenty states and numerous county and local governments had adopted laws or ordinances limiting charity solicitations to organizations that could prove a sizable proportion of the collection went for charitable purposes rather than for salaries and administrative costs.”⁷ (Many of these were subsequently rendered unconstitutional by U.S. Supreme Court rulings.)

Paul C. Light, a professor at New York University's Wagner School of Public Service and an expert on public opinion on the sector, notes that things deteriorated further for charities after the attacks of September 11, 2001, when the media and others jumped all over the Red Cross for the speed and manner with which it disbursed donations to victims.⁸ The criticism, predictably, had a huge effect, even though it was unfounded. The *Chronicle of Philanthropy* reported in 2002 that a whopping "forty-two percent of Americans said they had less confidence in charities now than they did before the attacks because of the way charities handled donations."⁹

Six years later, things hadn't improved. In 2008, Ellison Research surveyed 1,007 Americans and found that "sixty-two percent believe the typical non-profit spends more than what is reasonable on overhead expenses such as fundraising and administration."¹⁰ A March 2008 survey by the Organizational Performance Initiative at the Wagner School of Public Service also found that "Americans remain skeptical of charitable performance" and that "estimates of charitable waste remain disturbingly high."¹¹ Only 17 percent felt charities did a "very good job" running programs and services.¹² The study also showed that an astounding 70 percent of Americans believed that charities waste "a great deal" or "fair amount" of money. Just 10 percent of Americans interviewed thought that charities did a "very good job" spending money wisely.¹³ To put that in perspective, even Congress, at its worst, fares better. In November 2011, Gallup reported congressional approval at an all-time historic low of 13 percent.¹⁴

It's a sad state of affairs when you wish you had the approval ratings of Congress.

A Circular Mess

Despite the abundant evidence that the public believes charities waste a great deal of money, I know of no study—and certainly not one that has ever been distributed to the public—showing that charities actually *do* waste money. I'm not aware of any research showing that charities are ineffective at running programs or that they spend more than is reasonable on fundraising and administration, systemically or otherwise. Indeed no logical standard exists for what is reasonable.

I come from this sector. I have worked very closely with many dozens of humanitarian organizations for over three decades. I have worked with hundreds of leaders and professionals inside the sector. And I can tell you that there is no legitimate reason for so many people to have such a low opinion of charities. Robert Kennedy once said, “One fifth of the people are against everything all of the time.”¹⁵ If one-fifth of the people said they thought charities waste a lot of money, I wouldn't be concerned. But 70 percent?

At the heart of this low public opinion is the power of suggestion. The word we hear most often when it comes to assessing charities is “overhead”: low overhead, high overhead, “ask about overhead,” overhead ratings, and everything-else-overhead. Now, if I tell you not to think of an elephant in a cocktail dress, you won't be able to get the image out of your head. Similarly, if the first word that comes to mind when you think about charity is “overhead,” and if you are programmed to associate overhead with waste, it follows that waste and charity will become synonymous to you and the rest of the culture.

How do we change this?

Actually it's not clear that public opinion is what we should be trying to change. Low public opinion is a reflection of deeper problems: the sector's apparent inability to move the needle on huge social problems. So asking how we change public opinion is a little like looking at an X-ray that shows you have a tumor and asking how you fix the X-ray. But that's not a perfect analogy because in the case of charity, low public opinion means lower contribution levels, which further inhibits our ability to address huge social problems. To continue the analogy, in the case of charity, the X-ray actually has the ability to make the tumor worse.

When we peel back the layers to examine how public opinion influences charities' behavior, we see that it's a circular mess:

- Charities' fear of public disapproval pressures them to cater to public prejudices—mainly lowering overhead, that is, administrative salaries, fundraising investment, marketing expenditures, and so on.
- The more charities give the public what it wants—low “overhead”—the less those charities can spend educating the public about what they actually do. And the public considers any effort by charities to educate them about what the charities actually do to be wasteful overhead to begin with.
- The less the sector educates the public, the lower the public's opinion of the sector remains.
- The more that charities give the public what it wants—again, low overhead—the less they can grow and therefore the less significant their long-term achievements. Long-term achievements require short-term spending, which yields zero short-term results but increases short-term overhead—which the public abhors.

- The less dramatic the sector's long-term results are, the lower the public's opinion of it.

These conditions are not new. For hundreds of years, charities have been forced to follow a rule book that doesn't allow them to spend money on the things they need to achieve real change. Both despite this frugality and because of it, they are then accused of being wasteful. The humanitarian sector is not innocent in this. It has allowed itself to be victimized. In fact, it can be relied on to allow itself to be victimized.

The sector must reject the role of victim. We must work to improve the sector's public image while simultaneously having the courage to spend money on the things we need to create real change. This will, ironically, have the effect of improving public opinion. Positive public opinion and effecting real change are inexorably linked—and they are at the heart of our dreams for humanity.

This book is about finding the way forward to make our dreams for humanity a reality. It's about confronting the four-hundred-year-old rule book by which all organizations fighting for worthy causes—from disease to poverty to injustice—are forced to play. It's about retiring it—putting it in a museum alongside fossils of the earliest known vertebrates and diagrams of the sun revolving around the earth.

We need a civil rights movement for charity—and this book is about how we start one.

How I Got Here

Forensic investigation of structural dysfunction in social change wasn't what I originally intended to do with my life. I wanted to

be a goalie in the National Hockey League. Then I wanted to be the next Bruce Springsteen. But I had neither the reflexes for the former nor the melodic prowess for the latter. And in any event, I got distracted from both pursuits during my first year in college, when I began to learn for the first time about the numbers of people dying of hunger. I can still remember the 1980 statistics: 15 million human beings dying every year of hunger and hunger-related disease, two-thirds of them children. Millions of kids dying every year of diarrhea? For a kid used to contemplating hockey pucks, it was a staggering figure. A staggering thought.

This was around the time the Hunger Project was launched by Werner Erhard, the creator of the est Training. The project's goal was audacious: to end hunger by the year 2000. Now, I was eight years old when Neil Armstrong walked on the moon. The idea that we could get to the moon by saying we were going to do it—the sheer power of declaration—was and remains the most exciting thing in the world to me. So when Erhard said we could end world hunger by saying that we were going to do it, I was hooked.

The Hunger Project did not meet its goal of ending hunger and starvation within twenty years. But it started the conversation that no one else was having: the conversation that will eventually end hunger in our lifetime. It said, “We can do this—we can end this.” The conversation until then had been limited to, “Eat your food because there are people starving in the world,” or, “We have to help people in whatever little way we can.” It was a timeless conversation resigned to the persistence of the problem, summarized four hundred years ago by Puritan leader John Winthrop in his famous sermon, “A Model of Christian Charity”: “God Almighty in his most holy and wise providence hath soe disposed of the Condicion of mankinde, as in all times some must

be rich some poore, some highe and eminent in power and dignitie; others meane and in [submission].”¹⁶ The Hunger Project said, *Screw that. Hunger is unacceptable. It’s time to talk about eradication.*

Today, as a result of changing that conversation, we see initiatives like the United Nations’ Millennium Development Goals, which call for achieving a series of benchmarks for tackling extreme poverty by 2015. We see Share Our Strength, calling for the end of child hunger in five years; Bono’s ONE Campaign calling on us to save 4 million children’s lives within five years;¹⁷ and many other similar examples.

Ralph Waldo Emerson once wrote that “our age is retrospective. . . . It writes biographies, histories and criticism. The foregoing generations beheld God and nature face to face; we, through their eyes. Why should not we also enjoy an original relation to the universe?”¹⁸ The Hunger Project transformed our thinking about hunger from being retrospective to being original. It could be our own.

This was a bigger idea to me than being a goalie in the NHL.

In 1980 I became the chair of the undergraduate Harvard Hunger Action Committee. The committee organized two campuswide fasts each year. That meant we’d ask every kid at school to give up dinner on a specific night, and for every kid who said yes, the University Food Services would give about two dollars to Oxfam America. Each fast raised about two thousand dollars.

We weren’t going to end hunger in twenty years that way. I wanted to do something bigger. Two years later, a big idea came to me: get a large group of students to bicycle across the entire continental United States to raise money and awareness for the end of hunger. That was big. It was terrifying. Terrifying was what I was looking for.

By the summer of 1983, my co-chair, Mark Takano, and I had recruited thirty-eight people for our Ride for Life journey across America. Thirty-nine of us took a six-hour flight from Boston to Seattle and spent the next sixty-nine days bicycling 4,256 miles from Seattle to Boston. We met amazing people and experienced the true generosity of Americans. We raised about eighty thousand dollars for Oxfam America, appeared on TV and radio stations all over the country, and arrived home physically, spiritually, and emotionally spent. We had given the most we could for a cause that we cared about deeply.

I remember thinking, *Wow! Would I love to do this kind of thing for a living.* But then that familiar little voice of cynicism that haunts us all from time to time immediately chimed in to tell me that that was a stupid idea. I listened to it, went to work in the Massachusetts State Senate, and hated it. It seemed to me to be an institution committed to doing nothing.

This was also a time of personal turmoil for me. I was coming to terms with the fact that I am gay. I had been interested in a career in politics but figured then, that because I am gay, that was never going to happen.

So I headed to Los Angeles, in part to escape myself, in part to see if songwriting and music could be an outlet for my desire to make a difference. But then the AIDS epidemic hit with full force. Back then it was like a smart bomb aimed at two generations of gay men. And if I'd been born a year earlier, I probably wouldn't be alive today. I had the advantage of learning about AIDS from the media, which was beginning to report on it right before I became sexually active. People born a year earlier weren't so lucky. I can count on one hand the number of gay friends I have in their sixties and seventies. Those two decades of men were wiped out.

Tragedy without modern precedent was all around us, and yet it felt as if there was nothing big anyone could do about it except wear a red ribbon or go to an AIDS gala dinner. I didn't feel like sitting in a hotel banquet room or dabbling in symbolism. I found myself feeling that same helplessness I'd felt in college in the face of hunger. For a while, I thought about organizing another journey—a seven-day pilgrimage on bicycles from San Francisco to Los Angeles. But I just sat on it. I was too depressed and demoralized to do anything about it.

Then I saw the movie *Alive* about the Uruguayan rugby team whose plane went down in the Andes and who, after ninety days, with the world having given them up for dead, breached those terrifying mountains and got themselves rescued. Something in me was awakened. I left the movie theater and a voice not my own said to my friend, Ritch, "That's it. We're going to do the AIDS Ride."

The rest, as they say, is history.

A New Industry

The first event we organized, California AIDS Ride, was a seven-day, six-hundred-mile ride from San Francisco to Los Angeles. Four hundred seventy-eight people rode, and we netted \$1,013,000—much more than we'd anticipated—for AIDS services at the Los Angeles Gay & Lesbian Community Services Center.¹⁹ We began organizing AIDS Rides all over the nation. Soon after, we created a three-day pilgrimage for breast cancer: sixty miles from Santa Barbara to Malibu. This time participants walked. That first breast cancer event was four times as successful as the first AIDS Ride, netting over \$4 million.²⁰ We began organizing those all over the country. Then we created journeys

for AIDS vaccine research, called the AIDS Vaccine Rides, and then for suicide prevention, called the Out of the Darkness walk. We started doing events in more distant locations—Alaska, Canada, Europe, and Africa. In the process, I founded a company called Pallotta TeamWorks, and we created a whole new category of civic engagement—the long-distance fundraiser and the long-distance life changer—which to date has raised in excess of \$1.1 billion for important causes and given new meaning to the hundreds of thousands of people who have participated in them.

In the first eight years, 182,000 people walked or rode in one of our events, over 3 million people donated, and \$581 million was raised—more money raised more quickly for these causes than any other events in history.²¹ In 2002 we netted \$81 million after all expenses—an amount equal to half of the annual giving of the Rockefeller Foundation at the time.

So, it turned out, you *could* make a living taking people on the journey of their lives.

Our company grew to about 350 full-time people in sixteen U.S. offices. Harvard Business School conducted a case study on us. We developed unique capacities for organizing large-scale, multi-day civic events:

- A sixty-person logistics touring team made up of riggers and carpenters and other professionals who would build the mobile cities—which consisted of thousands of tents, multiple command centers, giant dining tents, and other capital equipment to stage the events and care for the walkers and riders for days on end
- Our own in-house fifteen-person ad agency and environmental graphics department with media buyers, designers, traffic

managers, a published poet, world-class photographer, composer, and state-of-the-art recording studio

- A sixty-station in-house call center for customer relationship management, staffed largely by former participants and equipped with state-of-the-art predictive auto dialers and integrated customer relationship management software
- A sophisticated donation tracking system monitoring some \$170 million a year in contributions
- The most dedicated and inspiring staff ever assembled for anything
- A multimillion-dollar line of credit that allowed us to launch new events without charities having to risk any of their capital

We did this all for a fixed fee that averaged just 4.01 percent of donations—about the same amount banks and credit card companies charge just to process the donations. One hundred percent of every donation went directly to charities, which then reimbursed us for expenses.

We challenged convention on many levels—not for the sake of being unconventional but because convention, to us, clearly didn’t work. In fact, it screwed things up. It minimized potential at every turn. We did what we believed would work: we advertised our events the way Apple advertises iPads. We hired great executives and paid them well—not millions, but \$300,000 or \$400,000 annually. We provided an exceptionally high level of customer service both before the events and during them. Our literature and materials were gorgeous. We did things about which someone could say, “Well, you could have saved more money for the cause by not doing that” but that we felt contributed to greater participation and more contributions in the long run.

And we integrated all of this into one public-facing brand that challenged the notion that you should not be able to do good and do well at the same time. But there was no vernacular for that back then. Phrases like *social innovation*, *social entrepreneurship*, and *social enterprise* either hadn't been coined or were not yet widely used. There was no *Stanford Social Innovation Review*, no Social Enterprise Program at Harvard Business School.

When you're very successful and you're challenging convention, you attract critics. A few people with loud voices can be counted on by the media to hurl insults and accusations at you with tremendous consistency and conviction. Despite the fact that fifty thousand participants think you're doing everything right, one person who has no direct experience of the events but writes for a big newspaper calls you "controversial," and it becomes a self-fulfilling prophecy. Our experience followed the pattern, and we became "controversial."

The ultimate result was that in 2002, our largest partner, the Avon Products Foundation, appropriated our Breast Cancer 3-Day idea and model and set out to produce long breast cancer walks on its own.²² Avon's intention to compete with the 3-Days head-on spooked the new charitable partner we had lined up to be the beneficiary of the events for 2003. That new partner backed out at the last minute, after four months of preparations, and we went out of business overnight. We subsequently sued Avon for breach of contract and won—but the arbitration took three years, and our victory came far too late to put the company back together again. Avon's 2003 experiment was tragic in terms of its ability to make breast cancer research grants. Its net revenues available for making grants plummeted from \$70.9 million with us in 2002 to \$11.1 million when it tried the events on its own in 2003—a \$59.8 million negative variance in one year.²³ In

an apples-to-apples comparison, costs actually rose as a percentage of revenues.²⁴

Over the years of producing these events and successes and then enduring all of the criticism and watching our dedicated staff endure it, I began realizing that there was something fundamentally wrong about the context in which people were trying to create social change. Critics were attacking this charitable endeavor for doing things that businesses are encouraged to do every second of the day and for “causes” that are far less urgent. It struck me not only as illogical but as unjust and, ultimately, destructive. I began cataloguing everything I was observing—storing it away in my head. Over time I began to see a holistic web of illogic that was fundamentally undermining society’s ability to achieve social change. And I could see that people were literally religious about it. I decided to write a book about it.

The result was *Uncharitable*. In it I codified everything I had been observing over the previous decade. I described the two rule books that exist, one for charity and one for the rest of the economic world.

At first it was a hard sell. After probably forty rejections from various publishers, Tufts University Press agreed to publish it in 2008.

A Discriminatory Rule Book

This separate rule book by which the humanitarian sector must abide discriminates against the sector—and all those it seeks to help—in five big areas:

1. *Compensation*. We let the for-profit sector pay people a competitive wage based on the value they produce without limit.

But we don't want people making money in charity. Want to make \$50 million selling violent video games to kids? Go for it. But if you want to pay the right leader half a million dollars to cure kids of malaria, you and the leader are parasites yourselves.

2. *Advertising and marketing.* We let business advertise until the last dollar no longer produces a penny of value, but we don't like to see charitable donations spent on advertising. So charities can't build retail demand for donations to their causes. Budweiser is all over the Superbowl. AIDS and Darfur are always absent.
3. *Risk taking in pursuit of new donors.* It's okay if a \$100 million Disney movie made in pursuit of new moviegoers flops, but if a \$5 million charity walk doesn't show a 75 percent profit in year 1, it's considered suspect. As a result, charities shy away from unproven, large-scale community fundraising ideas. This means they can't develop the powerful learning curves the for-profit sector can.
4. *Time horizon.* Amazon.com could go for six years without returning any money to investors in the interest of a long-term goal of building market dominance. But if a charity has a long-term goal that doesn't yield short-term direct services, it's scandalous.
5. *Profit.* Business can offer profits to attract investment capital. But there's no such vehicle for charity. So the "nonprofit" sector is starved for growth capital.

If you put these five things together—you can't use money to attract talent, you can't advertise, you can't take risks, you can't invest in long-term results, and you don't have a stock market—then we have just put the humanitarian sector at the most extreme

disadvantage to the for-profit sector on every level, and then we call the whole system charity, as if there is something incredibly sweet about it. Charity could not be undermined with more reverence paid to the notion of something noble.

The catastrophic effects of this separate rule book are sobering. Since 1970, the number of nonprofit organizations that have crossed the \$50 million annual revenue barrier is 144. The number of for-profits that have crossed it is 46,136.²⁵ Eighty-eight percent of the nonprofit organizations in the United States have budgets under \$500,000,²⁶ and only 1 percent have budgets greater than \$1 million.²⁷ This is the crux of the matter. These organizations are dealing with problems of massive proportions, and our rule book prevents them from achieving anywhere near commensurate scale. All the scale goes to Coca-Cola and Burger King.

This discriminatory rule book comes from old Puritan ideas. The Puritans came to the New World for religious reasons, but they also came because they wanted to make a lot of money. They were aggressive capitalists. They formed the Massachusetts Bay Colony as a corporation and were accused of extreme profit-making tendencies by the other colonists. But at the same time, they were Calvinists, so they were taught, literally, to hate themselves. They were taught that self-interest was a raging sea that was a sure path to eternal damnation.

This created a real problem for these people. Here, they had come across the sea to the New World to make a lot of money, but making money would get them sent directly, immediately, and permanently to hell. They reconciled these conflicting values through their system of charity. Charity became an economic sanctuary where they could do penance for their profit-making tendencies. So how could they make money in charity if charity

was their penance for making money? The Puritans created two economic worlds where there was only ever one. The merchants, farmers, and carpenters of the world got free market practice, and the needy (and all who served them) got this religion we call charity, whereby pretty much everything that worked in the market was banished. We are still stuck with this system today. Self-deprivation is still the prescribed path to social change.

The Question We Have to Stop Asking

These Puritan ideas are held in place today by this one simplistic question: “What percentage of my donation goes to the cause versus overhead?” where we want the amount going to “the cause” to be very high and the amount going to “overhead” to be very low. It makes sense if you don’t think about it too much, but with a little reflection, you begin to understand that this method is deeply flawed in at least three critical ways.

First, it makes us think that overhead is not part of the cause. But it absolutely is. Unless there’s fraud going on (and if there’s fraud going on, no one is going to report it in line item detail on their Form 990), then every dollar that a charity spends in good faith is directed toward advancing the cause in whatever way it believes the cause can best be advanced. Overhead is a phantom. Then what about waste? Doesn’t this question uncover waste? No, it doesn’t even do that. Money can be wasted in any part of the service delivery chain. Waste is not the exclusive domain of overhead. What good is it to know that 95 percent of your donation goes to the cause if you don’t know that all of the money going to the cause is being wasted?

Second, the notion that overhead steals from the cause forces charities to obsess over keeping short-term overhead low at the

expense of actually solving problems. If our message to charities is, “My donation to you depends on your keeping overhead low,” then what we will get is low overhead, or the appearance of it. Solving social problems becomes a secondary matter because no one’s livelihood depends on it.

Third, ironically, the question of overhead gives donors really bad information:

- It tells nothing about the quality of the charity’s work. A soup kitchen can tell you 95 percent of your donation goes to soup, but you will never know if the soup is rancid because the overhead ratio contains no information about the soup.
- It doesn’t tell how the charity defines the cause. The more broadly the charity defines it, the higher the percentage it can report. Let’s say that you donate to a breast cancer charity that tells you 90 percent of your donation goes to the cause. You think the cause is breast cancer research. But the charity defines the cause as fundraising for breast cancer, education about breast cancer, *and* breast cancer research. In reality, only 50 percent of your donation goes to breast cancer research. The practice of stretching the definition of the cause is rampant in our sector because charities know we want low overhead.
- It leads donors to discriminate unknowingly against less popular causes, because these causes have to put more money into fundraising and promotion. They need to be known before anyone will give them money. And getting known costs money. A cause like breast cancer, where one out of every two people in the world is at risk, doesn’t have to do that kind of spending.
- It gives the wrong overhead figure because it measures overhead against the wrong result. For example, let’s say Jonas Salk

spent \$10 million to raise \$20 million to find a cure for polio. We divide the \$10 million he spent into the \$20 million he raised and say he had 50 percent overhead. But raising \$20 million was not his result. His result was a cure for polio. If you divide \$10 million into the value of a cure for polio—tens, maybe hundreds of billions of dollars—his overhead was a statistical zero.

If It's Such a Bad Question, Why Do We Keep Asking It?

We ask the question because we are trained to ask it. We have been trained by watchdog agencies, state attorneys general, and the media, all of which reinforce each other.

Worse, we are trained to ask this question by the charities themselves, which place the watchdog seals of approval on their Web sites. To get one of these seals, they have to have low overhead. And in some cases, they have to pay for the seal—an expense they have to book as overhead!

When the charities place these seals in prominent places on their Web sites, they are signaling to the general public that overhead is the smart thing to ask about. And since many of them focus on keeping overhead low above all else, or accounting for it in a way that allows them to report it as low, the overhead measure is in their best interest. But it may not be in the best interest of their community or donors. What good is low overhead and organizational stability if we're not solving the problems for which we were chartered?

People in the Humanitarian Sector Crave a New Direction

Since *Uncharitable* was released in 2008, I have given over a hundred and twenty presentations on it to about fifty thousand

people in twenty-nine states and seven countries. I've flown nearly a quarter of a million miles doing it. I have spoken to small classes in nonprofit management at Harvard, Stanford, Tufts, Wharton, Brown, and many other universities and to large audiences gathered at annual meetings for the Council on Foundations; the Philanthropy Roundtable; the Southeastern Council on Foundations; Washington, D.C., Grantmakers; Inside NGO; and many others. I have spoken at institutional funders' offices like the Gates Foundation and the Hewlett Foundation, and at leadership meetings for the Boys and Girls Clubs, YMCAs, associations of children's hospitals, and many others. I also write a weekly blog on these issues for *Harvard Business Review* online.

I didn't anticipate the magnitude of the response—the extent to which people would ask me, “What do we do about this? How do I get involved? Where do I sign up?” After every talk I gave, there was a line of people waiting to vent their frustrations with the constraints under which they work and tell me how for years they had been thinking some of these same things but had never heard them articulated as one codified whole.

I didn't expect to discover that the cause of causes themselves is an idea whose time has come. The millions of hard-working people who have dedicated their lives to alleviating suffering and injustice are fed up with suffering injustice themselves. They are tired of being misunderstood, tired of working for artificially suppressed wages, tired of defensively responding to questions about their salaries and about overhead from people who haven't the slightest idea of the realities under which they work. They are tired of being second-guessed by board members driving from the back seat, tired of being asked to solve the most vexing social problems with inadequate resources to make even a scratch on them.

And they are tired of being told to “act more like a business” by businesspeople who refuse to allow them to use any of the real tools of business—adequate resources, to begin with.

Here’s a representative sample of some of the hundreds of e-mails and comments I’ve received from individuals on the front lines:

“I’m signing on as a soldier for sector-wide change. As an industry, we need to retrain the American public on how to evaluate who they’re giving to and why.”²⁸

“I can’t remember being as excited about the non-profit world since I began working in this sector.”²⁹

“I feel at once enraged and empowered.”³⁰

“I couldn’t be more excited that someone is not just advocating, but shouting about the things you’ve been writing concerning non-profits and the erroneous ways in which people view them.”³¹

“You articulated many of the things I find so frustrating about the non-profit world.”³²

“You articulated thoughts that have been bubbling below the surface for this fundraiser for some time. I work at an organization that spends so much time telling our donors about our overhead ratio, as if that were the best reason to give, thereby negating our core mission—making a real change in the community.”³³

“Count me in, Dan! . . . I’m fired up!!”³⁴

This recognition that things need to change and the yearning for that change to occur came not only from frontline practitioners but from sector leaders, institutional funders, and leaders of organizations. In a presentation I did at the Bill and Melinda Gates Foundation, one program officer thanked me for raising

these issues. She was frustrated about a 15 percent limit on overhead on her grants and the fact that she has to get grantees to recategorize expenses to fit the rule.

Another executive at the Gates Foundation at the time wrote to me:

I want to say how much I appreciate your blog on giving donors what you think they want. . . . Charities constantly sell themselves short by conforming to donor fads and framing of issues or adapting themselves to the latest government or foundation reformulation of strategy. The symbiotic relationship of donor and recipient has proved to be sustainable and perpetuating—to the detriment of vital social issues.³⁵

Paulette Maehara, then president of the Association of Fundraising Professionals, which represents thirty thousand members in 222 chapters throughout the world, wrote to me after a speech in Canada:

The sector has fallen into a trap we created. By focusing on what we DON'T spend, and not on what has been accomplished, we have completely missed the mark in our messaging. We are part of this problem and it's up to us to educate our way out of it.³⁶

Undergraduates, graduate students, and recent graduates were similarly frustrated by the existing state of affairs and pumped by the message. A colleague wrote to tell me about a friend:

She's in the midst of an MBA program at Berkeley/Columbia . . . and decided to go back to school because she can't stand the poverty culture of the nonprofit sector and says that the [sector] . . . doesn't know how to capitalize its own projects.

She started out in the for-profit world and has really had a hard time acclimating to the nonprofit worldview.³⁷

The overwhelming response to *Uncharitable* made me realize we've reached a tipping point. John Kennedy famously said, "Ask not what your country can do for you. Ask what you can do for your country." Clearly there has never been a lack of people asking what they could do—for their country or their sector. But there's been no effective response.

My best advice in *Uncharitable* was that people in our sector need to have courage. They have to speak out. But that is easier said than done. The stakes are high for an individual. People feel isolated at every level. Everyone worries about job security. Grantees are afraid to talk to institutional funders for fear that it will put their grants at risk. Program officers at foundations have presidents to respond to. Staff members have executive directors to answer to. Presidents at foundations and humanitarian organizations have boards to answer to, and while they may realize that much higher investment in leadership, fundraising, staff training, and retention will enlarge the organization, it is of no moment if putting it into practice gets them fired. Boards feel they have the public, the media, and regulatory authorities to respond to. No board member wants to be the lone champion of a countercultural assault on overhead ratios or low executive compensation. They don't want their organization losing Charity Navigator stars on their watch. They don't want a sensational media investigation because they hired a well-paid executive director.

Courage is still the answer. But courage is easier to muster in numbers. We need to band together. In each other we will find courage.

We Need a National Leadership Movement

It's time to develop a unifying strategy and path forward. For this, we need a leadership movement. Its charter must be to

- *Speak.* It must take the question to the public: How serious are we about solving entrenched social problems? And then it must aggressively educate people about the realities of what it will take to solve them. It must teach the public to think differently about value: the value of investment in leadership, in marketing, fundraising, and expansion. It must teach new ways of thinking about risk—specifically, about the risks of never risking anything. It must teach the public why our theories of transparency and efficiency are broken and undermine the very values they purport to uphold.
- *Train.* It must methodically train the media and regulatory authorities about these issues. And it must provide tools for the training of board members and major and retail donors.
- *Respond.* It must aggressively respond to sensational and inaccurate media stories whenever and wherever they arise.
- *Aggregate.* It must aggregate opinion and ideas and communicate these en masse to foundations. It must start telling foundations together, and regularly, the truth that we have been too afraid to speak on our own. It must pull heads out of the sand.
- *Make legislative history.* It must gather all of the fragmented ideas for structural change, statutory change, and changes in the tax code into one sweeping and proactive piece of legislation.
- *Build.* As part of a legislative act, it must build a mechanism that will give the public—on a complete, objective, and

regularly updated basis—the rich information on the nation’s charities that the public needs but has never had. It must build an agency for the distribution of accurate information because without it, no market can function properly.

- *Litigate.* It must challenge federal, state, and local statutes that violate the First Amendment and other rights of the humanitarian sector when they force the sector to speak in the language of administration-to-program ratios.
- *Measure.* It must measure its own impact at every conceivable opportunity. How many media outlets did we train this week? What impact did we have on them? How many board trainings did we do this month? What are the attitudes of the trainees a month later? How are we tracking along a critical path to construct legislation? How are our ads moving our public opinion polls?
- *Bind.* It must organize all of the people who are excited by these ideas in their own communities. By *organize*, I mean bring together, excite, inspire, and engage—give people meaningful things to do that make a clear impact. I mean introduce people to one another. Create new bonds.

No such movement currently exists. There are movements afoot, but they focus on other things. The venture philanthropy movement is searching for innovative charitable programs. The social entrepreneurship movement is training those interested in new ways of combining doing well with doing good. The social capital movement is trying to fund new ventures and has all but written off philanthropy and the humanitarian sector. The impact assessment movement is aimed at the very specific goal of measurement, without an eye on distribution or the larger context in which the measurement will occur. None of these are aimed at

correcting structural dysfunction, cultural prejudice, or public illiteracy.

In addition, the social change community and its leadership are fragmented. Our discussions are siloed. We are a motley assortment of institutional funders, charity executives, academics, medical researchers, major donors, professional fundraisers, the family foundation community, institutional investors, social investors, celebrity do-gooders, and the government—the list goes on—and each group has its own segregated annual conference—TED, ARNOVA, Social Enterprise World Forum, Council on Foundations Annual Meeting. There are dozens, if not hundreds, of separate large conferences on social change.

Given the challenges of coordinating activity within the existing dysfunctional framework, it is inconceivable that the current structures could reinvent the framework itself.

Announcing the Charity Defense Council

In *Uncharitable*, I tried to state the problem. Now it's time to get to work solving it. Enough talking about what we need. I want to tell you about what we have. We have an entity. It has a mission. It has a purpose. It has plans. It's called the Charity Defense Council. And it needs you.

The Charity Defense Council was incorporated in Massachusetts in March 2011 and has received its tax-exempt status from the U.S. Internal Revenue Service. As an initial charter, this is what we will do:

- Act as an anti-defamation league for the sector.
- Enlighten the public through paid advertising and media with a whole new conception of charity.

- Gather the best thinkers in the country to design a national civil rights act for charity and social enterprise that would support all of our best new ideas and wipe the slate clean of the old, fragmented, reactionary, statutory code that stands in our way.
- Challenge unconstitutional laws targeted at the sector, especially those that infringe upon our First Amendment rights.
- Organize ourselves, our friends, and colleagues.

Some have argued, “I don’t like the word *Defense*.” When I was exploring titles for *Uncharitable*, some said, “You need a more positive title.” But I didn’t want a positive title; I wanted an honest one. In the book, I quoted Buckminster Fuller: “A problem well-stated is a problem well on its way to being solved.” I wanted to state the problem clearly. And the title was designed for that purpose. It signaled that this is not just another book proposing bandages at the margins.

Similarly, our rights and our work need to be defended. That’s the state of the problem right now. When that changes, we can change the description. But we must meet the issue where it’s at, and this is where it’s at.

Our system for creating change works against us. And it is axiomatic that if we do nothing to change that system, it will continue to work against us. We have the opportunity to eradicate the most hideous forms of human suffering in our lifetime. It is a possibility no generation before us has known. Hundreds of years ago, charity was about neighbor-to-neighbor assistance. We have a larger opportunity today. And the code for our ancestors’ compassion will not suffice for our generation’s dreams.