In fields as diverse as education, elderly care, arts, healthcare, and environmental sustainability, nonprofit organizations serve the public to meet a variety of present and future needs. Operating primarily from donor support, these organizations rely on the financial generosity of individuals, foundations, and corporations to successfully carry out their missions. Donors and grantors trust that organizations will be good stewards of their donations and will invest wisely in programs supporting the organization’s stated mission. Too often, though, charitable donations are misused, scandals arise, and the public begins to mistrust the actions of nonprofit leadership; philanthropic ethics are then called into question. For leaders and managers in the nonprofit field, it is important to understand the importance of ethics in both fundraising and development, and to create procedures to enforce ethical codes and standards.

Tim Burchill, Executive Director for The Hendrickson Institute for Ethical Leadership, has turned a career worth of observations into *Seven Ethical “Dilemmas” in Philanthropic Fundraising*, to guide nonprofit managers through these common issues of ethics. These dilemmas Burchill cites include tainted money, compensation, privacy, stewardship, honesty and full disclosure, conflicts of interest, and the appearance of impropriety (Santicola 2006). By looking at these dilemmas in more detail and in the context of real life scenarios, we can better understand why Burchill warns nonprofit managers of these situations.

First, Burchill warns against tainted money, or funds accepted from questionable sources. Often a nonprofit organization finds itself the recipient of a gift from an individual or group whose actions or beliefs are in direct conflict with the organization’s mission. For example, “Should
environmental organizations have refused to accept all future donations from BP after [the 2010] oil spill in the Gulf of Mexico? Should community-based health organizations, especially those serving low-income and minority communities, accept financial support from fast food and soft drink companies?” (Seltzer 2011). Well, maybe not... But how does an organization decide whether or not to accept the money? What if the gift would keep the organization from closing its doors, would help jumpstart vital programming, or would launch a much-needed capital campaign?

As Arthur Schaefer, professor of business and ethics at Loyola University, writes, “How a nonprofit organization accepts money defines its public and private character. Certainly, a nonprofit that accepts donations from questionable sources conveys the idea that money is the most important value, superseding all other considerations” (2011). By creating a gift-acceptance policy, a nonprofit can more easily make development decisions and justify them to skeptics. Schaefer suggests a three-step decision making process, involving analyzing the options, weighing options against the organization’s core values, and finally, considering the different ways to proceed (2011). By following this process each time, nonprofits can avoid short-term temptations and can better evaluate long-term impacts of a financial gift or partnership.

The second dilemma Burchill presents is compensation. In a field where employee motivations should be driven by mission advancement rather than a fat paycheck, compensation can be a tricky subject, as nonprofits must also compete with the private sector for qualified employees.
Particularly post-Recession, the topic of salaries of upper-level nonprofit managers has come under debate, including this report stating:

In a March 23, 2009 Nation column, Katha Pollitt announced that she “stopped donating to the New York Public Library when it gave its president and CEO Paul LeClerc a several hundred thousand-dollar raise so his salary would be $800,000 a year.” That, she pointed out, was “twenty times the median household income.” Asking him to give back half a million “would buy an awful lot of books—or help pay for raises for the severely underpaid librarians who actually keep the system going.” If any readers thought LeClerc was an isolated case, she suggested checking Charity Navigator for comparable examples. (Rhode & Packel)

Nonprofits should seek guidance about appropriate compensation using the resources, such as the yearly Compensation and Benefits Study from the Association of Fundraising Professionals, to better justify salaries and compensation changes as a result of increased education, experience, and responsibilities of an employee, among other characteristics. Though the practice is often found in small organizations, nonprofits should also avoid tying the salaries of their fundraising professionals to the amount of money raised for the organization. While this is acceptable for private for-profit companies, the practice also sends the wrong message about the organization to the public. Again, the final judgment regarding appropriate salary should reflect the organization’s mission.

Next, Burchill stresses the importance of donor privacy. Donors entrust nonprofit administrators with private contact information, as well as confidential financial information. Donors may even share details of their investments and end of life plans when working with
fundraisers to coordinate planned giving or to set up a foundation. Development professionals should limit the sharing of this information to only vital employee and board members, and should keep this information within the organization if those individuals were to join another organization as employees or volunteers (Santicola 2006). This can be very important within a field or a city, as donors can be “poached” from one organization to another. While development professionals do build relationships with donors throughout their careers, they should be sensitive to the information gained as a result of their affiliation with an organization.

Fourth, nonprofits must promote proper and transparent stewardship of the funds they receive, and must use gifts for the purposes they were intended. Nonprofits should be cognizant of the time, effort, and money that go into fundraising efforts, and evaluate whether they are being good stewards of their resources. Money spent on gaining donations, as well as an organization’s operating costs, should not cost more than the programming efforts that directly support the organization’s mission. Fundraising costs are often presented as “the cost to raise a dollar;” ideally, the amount of money it costs to raise each dollar should be as low as possible. According to the Better Business Bureau’s Wise Giving Alliance, a nonprofit should not spend more than 35 percent of its financial contributions on fundraising efforts, and should spend at least 65 percent of its total expenses on programming (2014).

Nonprofits must also be aware of the intentions of donations. While it can be tempting to tap into programming funds or long-term capital campaign funds when unexpected operational expenses arise or donations wane, nonprofits must respect their donors by upholding the
intended purposes of restricted donations. Conversely, organizations should also be transparent about the ways contributed money is being used, especially when increased giving occurs after a crisis. As Rhode and Packel report:

The Red Cross learned that lesson the hard way after disclosures of how it used the record donations that came in the wake of the 9/11 terrorist attacks. Donors believed that their contributions would go to help victims and their families. The Red Cross, however, set aside more than half of the $564 million in funds raised for 9/11 for other operations and future reserves. Although this was a long-standing organizational practice, it was not well known. Donor outrage forced a public apology and redirection of funds, and the charity’s image was tarnished (2009).

Had the Red Cross been transparent about its plans post-9/11 contributions, donors might have been less outraged or more understanding of its long-term goals.

A fifth dilemma for nonprofits involves honesty and full, accurate disclosure of information. The IRS now requires certain information and forms, including exemption application and annual tax returns, be made available to the public by 501(c)(3) organizations (2014). Much of this information can easily be obtained for potential and current donors to review using online sources such as GuideStar.org. The importance of transparency of financial information is especially important in today’s technology-driven culture and in light of highly publicized financial scandals, such as Enron, Worldcom, the Smithsonian, and even Crisis Ministries, representing both the private and public sectors.

Next, Burchill reminds of the dangers of overlooking conflicts of interests, especially when mixing private business of board members with the business of the organization. While board
members may mean well when offering to do business with organizations they serve, deals should be made public and a bidding process should be considered for large contracts (Santicola). For example, the Board Members of SCANPO, the South Carolina Association of Nonprofit Organizations, must sign a Conflict of Interest Policy banning:

a. Owning stock or holding debt or other proprietary interests in any third party dealing with SCANPO.  
b) Holding office, serving on the board, participating in management, or being otherwise employed (or formerly employed) in any third party dealing with SCANPO.  
c) Receiving remuneration for services with respect to individual transactions involving SCANPO.  
d) Using SCANPO's time, personnel, equipment, supplies, or good will for other than SCANPO approved activities, programs, and purposes.  
e) Receiving personal gifts or loans from third parties dealing with SCANPO. Receipt of any gift is disapproved except gifts of nominal value which could not be refused without discourtesy. No personal gift of money should ever be accepted. (2014)

Taking the time to establish and enforce a policy regarding conflicts of interest demonstrates the organization’s commitment to upholding its mission, and reaffirms each board member’s commitment to making the organization its priority.

Lastly, Burchill finds impropriety to be the final ethical dilemma for nonprofit organizations. The staff and board members of a nonprofit are seen as representatives of the organization, and their actions reflect back on it, even in their personal lives or separate professional endeavors. In 2007, the business expenditures of chief Smithsonian staff member, Lawrence Small, were questioned, as the Washington Post reported:

Internal Smithsonian documents offer a glimpse into what one senator called the "Dom Perignon" lifestyle of the taxpayer-supported institution's chief official, who turned in a
$15,000 receipt for the replacement of French doors at his home and spent $48,000 for two chairs, a conference table and upholstery for his office suite. (Grimaldi 2007)

While Small’s immoderate expenses were allowed legally by the Smithsonian, the entire situation called to question the museum’s priorities and leadership. In addition to lavish spending and financial impropriety, board or staff members caught in situations of lying, infidelity, underhanded business deals, and other legal but unethical practices reflect poorly on the organization as a whole.

By guarding against Burchill’s seven ethical dilemmas, nonprofits can be more successful at maintaining public support and trust and furthering their missions, not just avoiding scandal. As Rhode and Pakel reflect, “Nonprofit executives and board members should be willing to ask uncomfortable questions: Not just “Is it legal?” but also, “Is it fair?” “Is it honest?” “Does it advance societal interests or pose unreasonable risks?” and “How would it feel to defend the decision on the evening news?” (2009). Though decisions might seem difficult or unpopular in the short term, negative implications can be avoided in the long-term.
SOURCES


