STANFORD
GRADUATE SCHOOL OF BUSINESS
STANFORD SOCIAL INNOVATION review

Point of View

Donor, Heal Thyself

Donor fatigue is ultimately rooted in givers' own reluctance to invest in the future

by Paul C. Light

Stanford Social Innovation Review
Winter 2005

STANFORD
GRADUATE SCHOOL OF BUSINESS
Stanford Social Innovation Review
518 Memorial Way, Stanford, CA 94305-5015
Ph: 650-725-5399. Fax: 650-723-0516
Email: info@ssireview.com, **www.ssireview.com**

by Paul C. Light

Donor, Heal Thyself

Donor fatigue is ultimately rooted in givers' own reluctance to invest in the future

Americans gave more money for Katrina, and in a shorter period of time, than they did for the victims of 9/11. But contributions to disaster relief are slowing to a trickle. The Red Cross is now struggling to meet its $2 billion Katrina target, while donations to CARE for Pakistani earthquake relief were off by as much as 90 percent in the first few days following the catastrophe, especially when compared to the South Asian tsunami.

"Donor fatigue" is the explanation of choice for the recent lull in giving. According to this account, Americans' generosity has been exhausted by constant appeals from across the globe, as well as by higher gas prices at home. Give Americans time and some good economic news, this line of thought goes, and the money will start flowing again.

Yet Americans certainly do not lack interest in these disasters. For example, research by the Pew Research Center shows that 70 percent of Americans were paying very or fairly close attention to the Katrina story in September, making it the No. 5 story of the past quarter century, just behind the *Challenger* accident, the September 11 attacks, the San Francisco earthquake, and the high price of gasoline.

Instead, my own survey research suggests that donor distrust, not fatigue, may be the primary cause of the slowdown in giving. Americans don't think that nonprofits are handling their money effectively, and so are tightening the grip on their charitable dollars.

The truth is, though, that nonprofits need money to spend money wisely. Yet donors have been hesitant to make the substantial and sustained investments in organizational capacity that charitable organizations need to be effective. Capacity includes not only "hard" resources such as information technology, telecommunications systems, and state-of-the-art financial packages, but also "soft" resources such as board development, strategic planning, and staff training. Without a wake-up call to donors about what it really costs to run a high-performing charity, "donor fatigue" will set in earlier and earlier, as organizations are able to get less and less done.

PAUL C. LIGHT *is a professor at New York University's Robert F. Wagner School of Public Service, and the author of "The Four Pillars of High Performance: How Robust Organizations Achieve Extraordinary Results" (McGraw-Hill, 2005).*

Uncharitable Thoughts About Charities

Confidence in charitable organizations has sunk to modern lows, according to the results of a survey that I conducted in mid-October on behalf of New York University's Robert F. Wagner School of Public Service. Only 14 percent of the 1,003 randomly selected Americans had a great deal of confidence in charitable organizations in general, compared to 31 percent who had little or no confidence. (Fifty-one percent had a fair amount of confidence.)

Across recent polls concerning confidence in institutions, charitable organizations rank just above television news, organized labor, and law firms in level of public confidence, and well behind the military, small businesses, organized religion, and colleges and universities.

Ironically, my surveys do not use the word "nonprofit" as a reference point because my focus groups have suggested that many Americans define the word as a failed business – that is, a business that cannot turn a profit. Instead of referring to nonprofits, I use the term "charitable organizations," which seems to come as close as any term in actually capturing the notion of a tax-exempt social-purpose organization.

The new, post-Katrina survey further revealed that respondents lack confidence in nonprofits because they don't think that the organizations are careful with their money. More than two-thirds of respondents said that charitable organizations waste a great deal or a fair amount of money. Almost half said that the leaders of charitable organizations are paid too much. And only 13 percent said charities do a very good job of spending money wisely.

Some of this skepticism stems from guilt by association. Because nonprofits quickly moved to pick up the Federal Emergency Management Agency's (FEMA) slack, the lines between them and the government soon blurred. According to the Red Cross, for example, roughly a quarter of Americans wrongly believe that the organization is an arm of the federal government. And so organizations like the Red Cross and the Salvation Army were swept into the broad criticism of America's lack of preparedness for catastrophes.

Nevertheless, some of the skepticism is well-deserved. Stories about long lines at relief shelters, broken computers, and busy signals did nothing to reassure potential donors. Reports about Red Cross overcounts of the number of people it housed on behalf of FEMA did not help, either.

Effectiveness Is Not Cheap

Luckily, the vast majority of Americans still believe that charitable organizations have the right priorities and are helping the

Instead of asking how low charities can go in overhead, donors should ask how high they can go in performance, and then [invest accordingly].

right people. Almost a third of Americans also say that charitable organizations do a very good job of helping people.

Yet worries about waste permeate the positives. Among those respondents who have a great or fair amount of confidence in charities, half of them say that charities do not do a very good or even somewhat good job at spending money wisely. These Americans are not saying "Show us the cause," but "Show us that you know how to address the cause effectively."

But charitable organizations can no longer afford to be effective. They lack the dollars they need to invest in infrastructure, and so must continue to do what they do best: defer investments, do more with less, and pray for miracles. Employees and volunteers cannot exploit themselves for long, however. At some point, they simply wear down, give up, and go home.

Instead of trying to lower administrative costs to zero (or hiding them), charitable organizations and their trade associations in Washington must confront the misguided notion that strong telecommunications systems, decent computers, and modern accounting packages are somehow luxuries that can be deferred into the distant future. They must enlighten their donors, whose distrust is driven in part by their own penury toward the very expenditures that would increase their confidence.

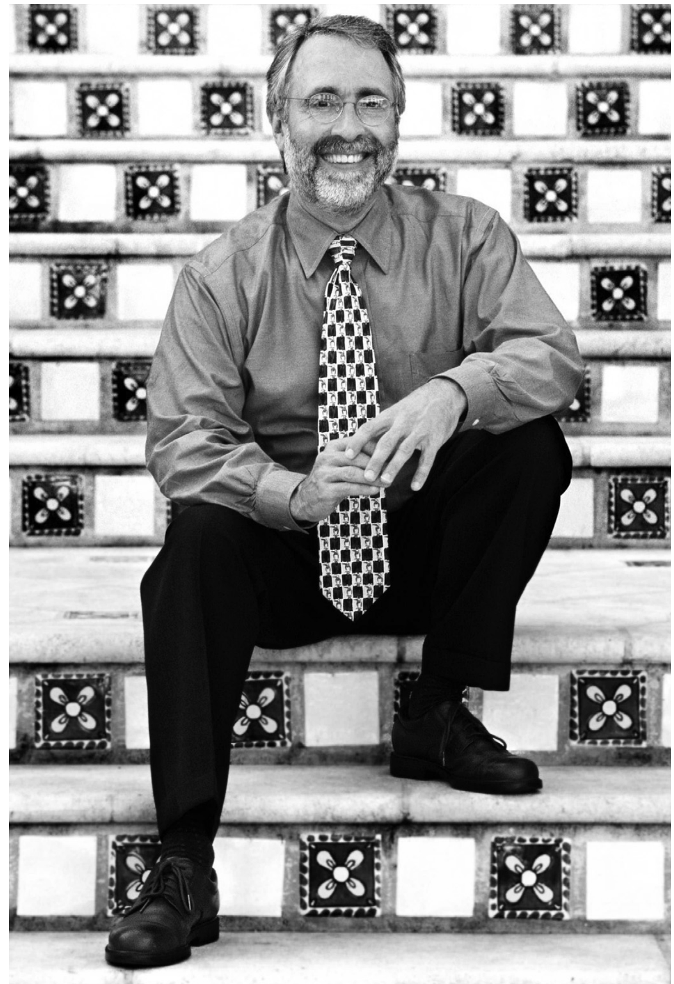
Their first step would be to stop making excuses about failures, and admit weaknesses. In so doing, charitable organizations could start building the case that they need the same equipment, supplies, and training that governments and private businesses also need to be ready when disaster strikes. Instead of spending time focusing on pictures of the needy, complaining about bad press, and congratulating themselves for all the people they are helping, charities and their national trade associations should be honest with the public about what it really costs to run a successful organization.

How to Invest in Nonprofits' Futures

If nonprofits did have funding for overhead, where should they invest it? I believe the answer is to invest in anything that makes charities more responsive to their changing futures.

Charitable organizations are clearly not invulnerable to uncertainty. They live in the same world as the rest of us – a world beset by revolutions in living things, manufacturing and materials, information, global capital flows, business strategy, and politics. They face many futures, some comfortable, many painful. If they are to survive, prosper, and help rebuild public confidence in themselves and in the sector as a whole, they must become more robust – that is, able to flex and bend against the great uncertainties ahead.

This robustness rests upon the four pillars of organizational



PHOTOGRAPH COURTESY OF PAUL C. LIGHT

strength: *alertness* to changing circumstances, *agility* in hedging against vulnerabilities and exploiting opportunities, *adaptability* in bringing new ideas to bear against emerging problems, and *alignment* between internal and external commitments to mission-centered change. These are the same four pillars of robustness that, when fortified, have helped organizations as diverse as Best Buy and the Big Apple Circus, John Deere and City Year, and Marriott and Maricopa County, Ariz.

There are many paths to building robustness, but all start with the recognition that investing in management and organization is essential to program success. As the Red Cross found out the hard way, strategic planning for the worst-case scenario is essential for a strong pillar of alertness. A sturdy telecommunications system and pre-positioning of enough supplies are keys to a strong pillar of agility. Reserve funds, anathema to donors though they might be, coupled with a culture of experimentation, are necessary for a strong pillar of adaptability. And intense, joint training of boards, employees, and volunteers is at the center of a strong pillar of alignment.

Moving charitable organizations back to the top of the list of the most trusted institutions will require making them more robust. Instead of asking how low charities can go in overhead, donors should ask how high they can go in performance, and then make the investments to get them there. □