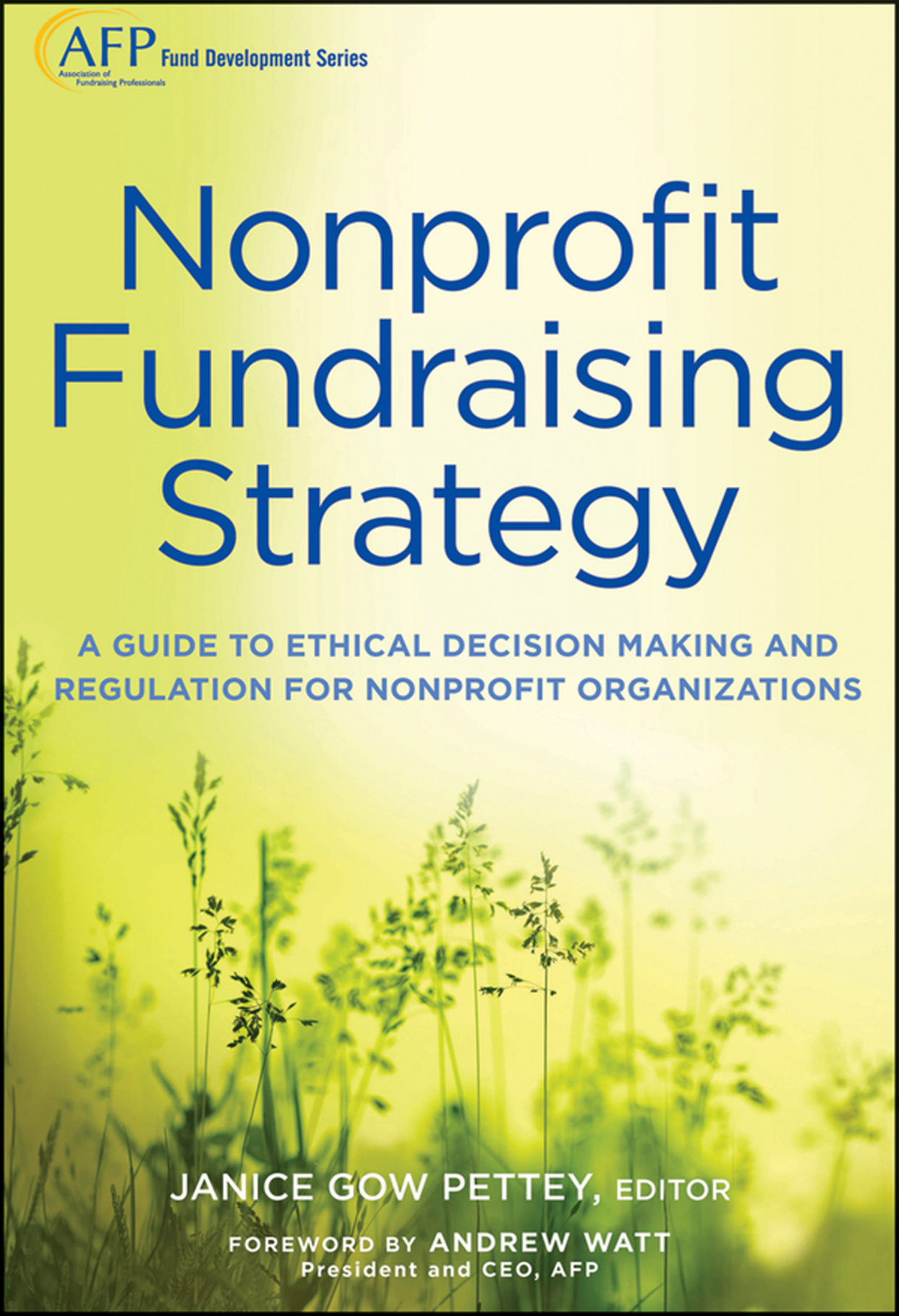
AFP Fund Development Series

Nonprofit Fundraising Strategy

A GUIDE TO ETHICAL DECISION MAKING AND REGULATION FOR NONPROFIT ORGANIZATIONS



JANICE GOW PETTEY, EDITOR

FOREWORD BY ANDREW WATT
President and CEO, AFP

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A Guide to Ethical Decision Making and Regulation for Nonprofit Organizations

JANICE GOW PETTEY

EDITOR

WILEY

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The AFP Fund Development Series is intended to provide fund development professionals and volunteers, including board members (and others interested in the nonprofit sector), with top-quality publications that help advance philanthropy as voluntary action for the public good. Our goal is to provide practical, timely guidance and information on fundraising, charitable giving, and related subjects. The Association of Fundraising Professionals (AFP) and Wiley each bring to this innovative collaboration unique and important resources that result in a whole greater than the sum of its parts. For information on other books in the series, please visit www.afpnet.org.

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The Association of Fundraising Professionals (AFP) represents over 30,000 members in more than 207 chapters throughout the United States, Canada, Mexico, and China, working to advance philanthropy through advocacy, research, education, and certification programs.

The association fosters development and growth of fundraising professionals and promotes high ethical standards in the fundraising profession. For more information or to join the world's largest association of fundraising professionals, visit www.afpnet.org.

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Serving as Chair of AFP's Ethics Committee was one of the most enriching volunteer experiences of my career and I am indebted to my colleagues on the committee for their support of ethics education for our profession.

To my husband, Marv, our sons and daughter-in-law, thank you for your constant support.

About the Editor

Janice Gow Pettey, EdD, CFRE, is the editor of *Nonprofit Fundraising Strategy: A Guide to Ethical Decision Making and Regulation for Nonprofit Organizations*. She is chair emeritus of AFP's International Ethics Committee and served on the committee for ten years. An acknowledged authority on the topics of diversity and ethics, Janice has taught and presented on ethics and diversity on three continents and many states. She has served as an expert witness on nonprofit ethics on a federal case and she has been interviewed by the *International Herald Tribune*, *San Francisco Chronicle*, *Chronicle of Philanthropy*, and the *Sacramento Bee*. Her award-winning book, *Cultivating Diversity in Fundraising*, was published by John Wiley & Sons in 2002. She has written numerous articles, which have been published in various journals and other print media.

She is the Vice President for Resource Development at the Asia Foundation and is the founder of J.G. Pettey & Associates, a consulting firm based in San Francisco. Janice is the recipient of a lifetime achievement in philanthropy award from the Golden Gate chapter of the Association of Fundraising Professionals.

Janice is an adjunct professor at the University of San Francisco, where she teaches courses in fundraising, strategic planning, and board governance. She is also on the faculty of the Fund Raising School, housed at the Center on Philanthropy, Indiana University.

She is a former Peace Corps volunteer, having served in Korea as a public health specialist. She earned a B.A. degree in literature from Park College and a master's in Nonprofit Management from Regis University. She earned her EdD from the University of San Francisco. Janice and her husband live in San Francisco. They have three sons.

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Foreword

The first edition of *Ethical Fundraising* was published in 2008. I doubt that many of us who were involved in Janice Gow Pettey's endeavor saw much significance in that. Hindsight adds a different perspective to the picture.

In 2008, the world stood on the edge of a financial precipice. As I write these words we are in the final countdown to a U.S. presidential election. The fate of the candidates will be determined on how they are perceived to have addressed the consequences of that financial collapse and how they propose to help all of us move forward.

Over the last four years government funding has been slashed. The social compact between governments and citizens around the world has, sometimes, been viewed as a luxury. Corporate support for the work of our communities has diminished and consequently the demand for what we do has never been greater.

All of the organizations that we work for, in health, education, community development, social impact and the arts have one thing in common: we work to create an environment in which all of us can be proud to live, side by side, with our fellow human beings.

So no one can say we're not under pressure to deliver. And people under pressure, organizations under pressure, need to deliver results—and deliver them fast. And at that point there can be an overwhelming temptation to take short cuts, precisely because the need for what we do is so great.

Taking the fastest route comes with risk. Risk to reputation, financial risk, and above all, risk to our beneficiaries. It is that last risk that needs to be at the forefront of our minds. If we fail, for whatever reason, so we fail those we serve.

Our reputation is a fragile thing built on trust—a bond between us and the philanthropic communities who trust us to deliver on their vision, using their resources. Once destroyed, that trust is overwhelmingly difficult to rebuild. So what can we do to mitigate that risk?

In my mind, there are three things critical to that bond; trust, confidence, and accountability. All of them rest on one platform—Ethics. An ethical framework for what we do is non-negotiable. The stakes are too high for us to fail to understand that. We are entrusted with implementing a vision of the world as a just, equitable and inspiring place for all and to risk failure is not an option.

So why ethics? Working within an ethical framework commits us, publicly, to certain values; it builds trust in our integrity; it builds confidence in our ability to support the work our organizations are committed to do; and it demonstrates that we are committed to communicating our impact—and what it took to deliver it.

These factors are critical to building an integrated platform for change. Without them the bond between all of us who work for change would be weaker, our relationships less clearly defined and our ability to serve impaired.

We don't have to talk ethics to support this. We do have to live ethics, understand ethics, to demonstrate leadership through the example we set. And that's where *Nonprofit Fundraising Strategy* comes in.

Under Janice's leadership, this team of authors has addressed the context and framework of ethics. They put the issues under a microscope that we don't normally apply and help us to understand those things that we normally take for granted. They help us to understand the concerns of the world around us, the impact of impropriety, the impact of our approach, how perceptions are formed and trust built—above all, the context for the decisions we make.

The knowledge and understanding of the contributors to this book is formidable. To have that knowledge at our disposal provides us with a phenomenal tool to help us as we help others.

On behalf of all those who read this book, I need to thank those contributors and above all, thank Janice for her commitment to this project. Without the investment she has made, this updated edition would not have seen the light of day. This is a resource that we should all keep constantly to hand. It's a source of inspiration and understanding; it's also a supremely practical tool for all of us who place ethics at the heart of everything we do.

Andrew Watt
President and CEO, AFP
November 2012

Preface: Ethical Will

REMARKS BY DR. ROBERT L. PAYTON
(FROM THE 2005 AFP THINK TANK ON ETHICS)*

When I turned 75 a few years ago, I decided that I was certifiably *old* and therefore, arguably, *wise*, and that if I had anything to pass along to a successor generation I should attend to it. It then occurred to me that I could use as a starting point an idea that I came upon more than 20 years ago. It was in a book entitled *So That Your Values Live On*, about the ancient Jewish tradition of the ''ethical will.'' The ethical will is a document analogous to the will with which one designates the disposition of one's goods and property and other material of economic value. The ethical will summarizes the disposition—passing on of the stewardship—of one's *moral* values.

I've been working on that document for a long time. I won't bore you with it here. (But I may try to bore you with it somewhere else.) These remarks will reflect on the *professional* values I most want to pass on to a successor generation, to you and to those who follow you. To sharpen the focus I will try to compress the philosophy of philanthropy that I've been working on for 50 years into reflections on the ethics of fundraising. To show respect for my elders, I will use the framework

*Robert L. Payton, born August 23, 1926, in South Bend, IN, passed away on May 19, 2011. Philanthropist; first-ever professor of philanthropic studies; founding director of the Center on Philanthropy at Indiana University; author; foundation executive; university president; U.S. Ambassador; WWII veteran. Above all, a remarkable public teacher, inspiring action through books, ideas, talk.

of the three-sector society that was given to us 30 years ago by some very wise people—John Gardner, Brian O'Connell, John Simon, Cathy McDermott, Virginia Hodgkinson, and many others, including a fundraising practitioner and teacher named Henry Rosso.

''Ethics and Civil Society,'' which was the way the topic was proposed to me, will be examined here as the morality of fundraising. ''Ethics and Civil Society'' casts the topic in elevated language; ''the morality of fundraising'' is intended to bring the subject back down to earth, ''into the trenches,'' as people used to say who remembered World War I. That image of fundraising is of a struggle that is grubby, grimy, tough, and very determined.

The first image loses touch with the reality of the hard work and commitment that fundraising requires. The second image loses touch with the nobility of the causes that fundraising serves. We seem to shift or stumble or stagger from one to the other, or we choose images of ourselves either as *hard-headed* or *visionary, practical* or *idealistic*—given that we must be both.

When we set out to bring the study of philanthropy into the university as a serious academic subject, we had to decide where it belonged. Most were of the opinion that philanthropy should be studied as ''nonprofit management'' and that as such it belonged in the business school or the school of public administration. Some of us were convinced that the roots of the subject were to be found in philosophy and history and literature and economics and sociology and that the study of philanthropy should be integrated into the liberal arts.

The educational philosophy I inherited contended that specialized studies were greatly strengthened by being based on two years or even four years of general education. It didn't matter whether you wanted to specialize in medicine or engineering or law or social work or music or television; you would be better at it if you had a grasp of what they called at the University of Chicago ''the organization, methods, and principles of knowledge.'' I bought that philosophy lock, stock, and barrel; hook, line, and sinker.

To move from the University of Chicago in 1950 to the Association of Fundraising Professionals in 2005 is not a long or mysterious journey.

My professional life took me from publishing to public relations to higher education to diplomacy to philanthropy—five or six *careers* over a working lifetime, as began to be the norm of my generation and will be part of yours. My preparation was a *liberal* and *general* education: I was supposed to be able to respond to opportunities that I had never anticipated. None of the endless waves of new technologies was going to leave me redundant and out of work or unemployable.

Over the course of my career I found myself doing all sorts of things I hadn't been trained to do. One of those was fundraising. It just happened. The grand ideas and prestigious institutions I served were not sustained by hope and glory only; they needed *money*.

Over the course of many years I came to share the prejudice against money that characterizes so many academics and other intellectuals. I found in working for the State Department and for Exxon Corporation that people in business and government are *more mature* in their attitudes toward money than are college and university faculty members. There are reasons for that. The most familiar one goes back at least to the 1930s: that faculty disputes over salaries are so bitter because the stakes are so low. People in the fields where I was educated—in the humanities and social sciences—disdained the search for funds but envied their colleagues who had funds for research and travel and books and graduate students and other things among the precious goods of higher education. Too many failed to see the connection.

Philanthropy, to quote myself, involves high ideals and low technique. (And to quote George Bernard Shaw: "I often quote myself. It adds spice to my conversation.") The challenge to fundraising and to fundraisers is to integrate the two without compromising the integrity of either one.

Much of fundraising strikes me as stupefyingly dull work. I tended to neglect that part. I was inspired and sustained by ideas and ideals, and I was convinced that fundraising research rotted the mind as well as the soul. I still carry some of that prejudice, which is why I was never as good at fundraising as I wanted to be or should have been.

"Ethics is the science of morals," according to Fowler's *Modern English Usage*, and "morals are the practice of ethics." Ethics is a *science*—that is,

it is grounded in *theory*. Fundraising is based on that theory but manifest in *practice*.

There are many moral people, including many fundraisers, who have no interest in ethics, who don't read very widely, and who assume that their moral compass is as accurate as anyone else's. I wish them well when the day comes that two of their guiding principles are in conflict, or when their boss expects them to "go along" with a decision to honor a donor of questionable repute. Or when they, as fundraisers, *recommend* that a person of questionable repute be awarded an honorary degree.

I've "been there, done that," as they say. I've been lost more than once in the fog of my own rhetoric. "Trimming," it used to be called, or "cutting corners." Those terms go back a long way. Our moral problems are neither new nor unique.

I'll conclude with some reflections on the other term of this topic: the notion of "civil society." I confess at the outset that "civil society," like "third sector" and many other terms, was not part of my vocabulary until 30 years ago, even though Hegel and a few other ponderous intellectuals were deep into it more than a century before. Many fundraisers know only about the third sector and have read little about the processes that have created the "space" for *voluntary action for the public good*, for the organizations and policies that have made modern fundraising practice possible and effective. The historical origins of "501(c)(3)," for example, or of tax exemption and tax deduction are taken for granted as if they came into our lives *at night*. I asked the same question three decades ago: Why is it that American society relies so extensively on voluntary initiatives to do the public business? Fundraisers have no better excuse than anyone else to be ignorant or neglectful of their heritage.

If you share my view of why philanthropy is America's most distinctive virtue and see philanthropy as central to our health and survival as a free and open and democratic society, then you must see fundraising as central to civil society and fundraisers as people engaged in work that is as important to us as government or the marketplace. Without the third sector, we're a society without a moral compass; without fundraising, we're without a third sector.

I suggest that you try to draft an ethical will: What values do you most want to live on? Write a professional version and a personal version as well; write one that you might discuss with a colleague and another that you might discuss with your spouse or your children. The professional version that I'm working on attempts to ground the study of philanthropy in the liberal arts.

I've had greater response to a question I posed 20 years ago at a meeting of the Independent Sector than to anything I've ever written: *Do you live* for *philanthropy, or do you live* off *philanthropy?* It's a hard question. It's only with the help of the liberal arts that one can find an answer. Your answer belongs in your ethical will.

Some of your work may in fact be stupefyingly dull at times, even to you, but it's important. Most of us don't realize it, but we're all profoundly in your debt.

Robert L. Payton
August 2005

Introduction

This book explores the importance of ethics to the fundraising profession and addresses the ethical decisions boards and fundraisers make and the ethical dilemmas they face. It is intended to be a resource for nonprofits large and small, young and mature, local and international.

Nonprofit Fundraising Strategy offers explanations of common ethical fundraising challenges along with practical case studies to stimulate thought and discussion. The case studies were developed by the AFP Ethics Committee as an educational tool for members and chapters.

Bob Payton (1926–2011), mentor and teacher to many fundraisers, wrote "Ethical Will" for the Association of Fundraising Professionals (AFP) Ethics Think Tank in 2005. He kindly provided permission for the paper to be reprinted here, and this thoughtful essay sets the tone for the book.

This book contains 21 chapters and three appendixes, which help readers use an ethical lens in strategic fundraising and are set forth as follows:

- Chapter 1, "Fundraisers and the Good Life" by Paul Pribbenow, defines virtues and discusses obstacles to living the good life.
- Chapter 2 by Dianne Lister presents the appearance of impropriety and conflict of interest from organizational and individual perspectives. Lister demonstrates how the appearance of impropriety can eventually lead to conflicts of interest.
- Chapter 3 by Jim Greenfield presents the rights of donors. Donor intent as a right addresses the issue of public confidence and trust in nonprofits.
- Chapter 4 on privacy and fundraising is written by Gene Scanlan. From prospect research to gift restrictions, Scanlan acknowledges

that privacy is not a straightforward issue in an increasingly donor-centered fundraising environment.

- Chapter 5 by Gene Tempel presents the ethical dilemma of tainted money.
- Chapter 6 by Paulette Maehara presents compensation as an ethical dilemma. Maehara discusses the major issues surrounding compensation and AFP's response to them.
- Chapter 7, ''Using Donations as Intended'' by Paul Marcus, covers stewardship from cultivation to acknowledgment.
- Chapter 8 by Jerry Rohrbach presents ''Ethical Considerations of Making the Ask,'' using the universal principles of honesty, respect, integrity, empathy, and transparency as guidelines for donor stewardship.
- Chapter 9, ''Honesty and Full Disclosure'' by Sam Gough, presents food for thought on how fundraisers define honesty. Transparency is the hallmark of full disclosure, yet there are valid concerns around what limits exist on the public's right to know.
- Chapter 10 by Barbara Levy provides a useful resource for fundraisers looking to develop a plan for ethical leadership.
- Chapter 11 provides a comprehensive overview of ethics from a global perspective from Andrew Watt. Watt suggests the framework of self-regulation as an autonomous model and presents the International Statement of Ethical Principles in Fundraising.
- Owen Watkins writes about the ethical responsibilities of businesses in the fundraising sector in Chapter 12.
- In Chapter 13 Janice Gow Pettey offers two frameworks for making ethical fundraising decisions and presents various organization codes, creeds, and standards supporting ethical decision making.
- In Chapter 14 Paul Pribbenow offers a reflection on the moral framework of philanthropy as a vocation or calling.
- In Chapter 15, Bob Shoemake presents the AFP Ethics Assessment Inventory.
- Audrey Kintzi and Cathlene Williams coauthor Chapter 16 on regulation, ethics, and philanthropy.

- Bob Fogal writes about leadership, governance, and giving in Chapter 17.
- And for Chapters 18 through 21, information is presented from the 2005 Association of Fundraising Professionals (AFP) conference discussing ethical issues affecting the work of philanthropic fundraising from the following presenters:
  - Bruce Sievers, Chapter 18, and Carleen Rhodes, Chapter 19, write about the ethical considerations for funders.
  - And Bob Herman, Chapter 20, and William Schambra, Chapter 21, write about the regulation of the nonprofit sector and restoring public confidence, respectively.

The book then concludes with three appendixes offering readers organization codes of ethics and standards, websites for international fundraising codes of ethics, and the Statement of Values and Standards for Excellence at the Tucson Symphony Society.

Case Studies

The Association of Fundraising Professionals (AFP) has developed fundraising cases as a tool for ethics education. Throughout the book you will find cases that relate to the topic of the chapter in which they are found. The answers given at the end of each case relate to AFP's Code of Ethical Principles and Standards. AFP has granted permission for the use of the cases. AFP's Ethics Committee has provided answers to the case questions using the AFP Code of Ethics and Professional Standards as a guide. For general discussion, readers may choose to use the cases without the questions and answers.