Harvard Business Review

Multiplication Philanthropy

by Dan Pallotta

FEBRUARY 17, 2012

Leverage is the mantra of the times in philanthropy, and rightly so. People want to know that the charities they support are using donations as effectively as possible. Donors and institutional funders are more demanding, more discerning, and less detached. They're no longer content with writing a check and securing their place in heaven. They want results.

But they're looking for them in the wrong places. They're missing the greatest leverage point of all: the multiplying effects of smart investments in fundraising. If you want to maximize the social effects of your donation, why would you buy, for example, $100,000 worth of great educational programming for inner city kids when the same $100,000 directed toward fundraising could generate enough money to buy $1 million worth of it?

Even the wealthiest and most sophisticated are oblivious to the opportunity — in fact, they actively avoid it. They follow conventional wisdom and direct their money to the programs of carefully vetted organizations, scrupulously avoiding fundraising support. Or they back new approaches by leading thinkers in philanthropy — models that also bypass fundraising investment — and think they're on the cutting edge. Either way, they're squandering the real and massive potential of their capital.

The venture philanthropy movement, for instance, gets it only half right. Donors are strongly urged to seek out the organizations with the best, most innovative programs and fund those programs. And we should be looking for organizations with breakthrough programs. But once we find them, we should direct giving not toward the programs but toward the organizations' fundraising and development operations so that they can multiply the funds available for programs.

The notion of catalytic philanthropy, while important, leaves the same half of the real potential unaddressed. In a nutshell, catalytic philanthropy exhorts the individual donor to take the bull by the horns. Instead of addressing a social problem by writing a check to an existing charity, donors create a new effort from the ground up. They take responsibility for all aspects of a particular social initiative, from accountability for results to mobilizing a campaign for change. But even here, donors aren't being coached to invest in the fundraising apparatus of their initiative. The founding donor can create a great model, but who's going to expand it and whence will those funds come?

Even capacity-building, though better than not-capacity-building, is missing the larger opportunity. It lumps fundraising in with finance, human resources, leadership training, technology, and other administrative functions. But fundraising alone has the capacity to multiply money. Indeed, it has the capacity to multiply the money available for the other components of capacity-building. So if you want to build capacity, don't fund technology and HR, fund the fundraising for those things.

The cutting edge is investment in fundraising. Yet everyone tries to suppress it, invoking a flawed theory of social change that says the less you spend on fundraising, the more you have for programs. That's true if it's a zero sum game. But it's not. Imagine a $10 million pie with $8 million going to programs and with the 20% fundraising slice taking $2 million away from programs. The last thing we want to do is make that a $3 million slice, leaving only $7 million for programs. But that's not how it works. If done correctly, the extra million enlarges the pie — substantially. A $10 million pie becomes a $15 million pie, and the $7 million available for programs grows to $12 million.

Charities invest in fundraising because the money they get back is greater than the money they put in. There are longstanding, proven correlations between the amount spent on the various fundraising methods and how much each will return. Those correlations are all positive. A Giving USA study found that a dollar invested in a major gift program produces, on average, $24 in revenue. A dollar invested in a direct mail program produces $10. A dollar invested in a special event produces $3.20.

Fundraising multiplies the potential of charitable gifts. There's nothing radical about this. It's only radical to those who have no experience with it. That lack of experience, endemic among donors, is a significant liability. It's one reason that charitable giving has remained constant in the

U.S. at 2% of GDP ever since we have been measuring it, and has not budged. How could it? Donors don't want charities to spend money on fundraising. But imagine, if we could move that 2% to 2.5% or 3%, we could put our dreams on steroids. Each half a point represents $75 billion – annually.

That dream won't come to pass by funding programs, because program funding cannot multiply anything. It is a paradox, I know, but funding programs annihilates our real potential to fund programs.

The smart money is in multiplication.

Dan Pallotta is an expert in nonprofit sector innovation and a pioneering social entrepreneur. He is the founder of Pallotta TeamWorks, which invented the multiday AIDSRides and Breast Cancer 3-Days. He is the president of Advertising for Humanity and the author of Charity Case: How The Nonprofit Community Can Stand Up For Itself and Really Change the World.
