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ETHICS

Re-Thinking Charity

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by Dan Pallotta

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Charity has come to business. Milton Friedman's insistence that causes had no place in business overlooked the fact that alignment with a cause could create a competitive advantage. More and more companies are after that advantage.

But the sad reality is that, with a few minor exceptions, business has not yet come to charity. It is not the fault of charity. For well over a decade it has been popular to preach to charities that they should act more like businesses, but the truth is, society won't permit it. And it's not likely to do so without a serious re-visiting of our fundamental canons about charity. What we mean by "act more like business" is really, "focus more on lowering overhead" — the opposite of what it takes to grow a successful business.

The nonprofit sector remains tightly constrained by a set of irrational economic rules handed down to us from the Puritans that discourage profit, self-interest, serious marketing, and risk-taking and long-term investment for revenue development. They work against the sector on every level, and they have been elevated, of all things, to the status of "ethics."

We have two rulebooks — one for charity, one for the rest of the economic world.

We let the for-profit sector pay competitive wages based on value, but have a visceral reaction to anyone making a great deal of money in charity. We let people make a fortune doing any number of things that will harm the poor, but want to crucify anyone who wants to make money helping them. This sends the top talent coming out of the nation's best business schools directly into the for-profit sector and gives our youth mutually exclusive choices between doing well and doing good. It is not sustainable, let alone scalable.

We let Coca-Cola pummel us with advertising, but donors don't want important causes "wasting" money on paid advertising. So the voices of our great causes are muted. Consumer products get lopsided access to our attention, 24 hours a day. Charitable giving has remained constant at about 2% of GDP ever since we've measured it. Charity isn't gaining market share. How can it if it isn't permitted to market?

We let for-profit companies invest in the long-term to identify new sources of revenue, but we want charitable donations spent immediately to help the needy. All results must be measured against expenditures in twelve-month windows, and a 65% return is required. No wonder charities can't scale to the size of the social problems they confront.

We aren't upset when Paramount makes a $200 million movie that flops, but if a charity experiments with a $5 million fundraising event that fails, we call in the attorneys. So charities are petrified of trying bold new revenue-generating endeavors and can't develop the powerful learning curves the for-profit sector can.

We let for-profit companies raise massive capital in the stock market by offering investment returns, but we forbid the payment of a financial return in charity. The result? The for-profit sector monopolizes the capital markets while charities are left to beg for donations.

We're re-thinking business. It's time to re-think charity. It's time to give charity the big-league freedoms we really give to business. The fight for these freedoms must be our new cause, because without them, all of our causes are ultimately lost.

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.

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