

Dependency: BAD FOR NONPROFITS?

Donors often express a desire for a grantee to not become dependent on them as a donor. At other times, they express a desire for a program, or perhaps an entire organization, to become self-sustaining. They want to be early investors in a program that can subsequently become sustainable.

These two ideas—non-dependency and sustainability—are not identical, though they can interrelate.

TWO SOURCES OF NONPROFIT CAPITAL

Broadly, nonprofits fall into two categories: ones that rely on the public's donations to exist, and those that charge fees for a product or service provided to clients.

Mostly, the first group relies on donations because those who are served cannot pay for the services they receive, or charging a fee doesn't seem appropriate because it could create a barrier to receiving a service the provider seeks to make widely available. Homeless persons cannot pay for accommodation and food, listeners to noncommercial or Christian radio do not pay for programming, and teen pregnancy prevention programs would be less well attended if girls bought the service. Similarly, it is hard to imagine a church charging a fee for its services; it would create a barrier to attendance. Virtually all charitable, humanitarian, and religious organizations fit into this model.

Conversely, nonprofit organizations will charge a fee when the market sustains such an approach. So, Harvard University charges tuition, a Catholic hospital charges for heart surgery, the symphony sells season tickets, trade associations charge membership fees, and nonprofit publishes sell books.

Donated capital is about one-third of the capital in the nonprofit sector. Most of the balance is from sale of products and services, including government contracts. A small amount comes from earnings in investments, gains on sales of assets, and unrelated business income. Of course, there are plenty examples of organizations that have a blended approach to capital acquisition.

DEPENDENCY

All nonprofits require capital. Organizations cannot operate without adequate funding, and volunteerism alone is not adequate for most organizations that seek to have an enduring impact. The first model depends on capital from donors, the second depends on fees from clients.

Both are dependent on their respective sources of capital to operate. Thus, the idea that an organization is not dependent on its capital source is a contradiction in terms. Donor-supported nonprofits are, and must be, dependent on their donors to operate.

THE COST OF NON-DEPENDENCY

It seems that what donors mean when they refer to avoiding dependency, is that a donor-supported organization should not be dependent on them, the donor. In short, the organization should depend on *other* donors. But, assuming other donors hold similar convictions and also want to avoid dependency, this principle simply means that an organization must constantly find new donors on which they must not be dependent. This is a highly inefficient way to acquire capital.

Tom Tierney, co-founder & chairman at the Bridgespan group, has reported that it takes executive directors of nonprofits tend to devote the lion's share of their time to fundraising, and that this is many times the amount of energy expended in a public company for the same purpose.

Thus, the principle of avoiding dependency, contributes to the inefficiency of the nonprofit sector.

WHY AVOID DEPENDENCY?

In some cases, a donor may not be meaning that a grantee should find other sources of donated capital, but rather, that it should modify its business model to be self sustaining. This change in the source of capital may be a wise move, even a necessary move.

Occasionally, a donor is referring to the fact that he wants the grantee to “not get lazy” in its fundraising. The meaning of this idea is not very clear. Surely, there is not virtue in simply finding new donors to replace current ones. What is better about Donor A than Donor B? It would make sense if the donor desired for the grantee to *expand* its fundraising, *acquire more* donors, and *built out* its programs. But too often, it seems, the donor has in mind the idea of rotating donors, and that a grantee should find a new donor with which to replace his support.

This is not a preferred behavior for a grantee, and it is not obvious how it adds value to his organization. One could argue that not pursuing replacement donors is not lazy; it is a prudent deployment of limited executive resources, and that focusing on programs is more important than recruiting substitute donors.

EARLY STAGE CAPITAL AS A GIVING STRATEGY

Sometimes a donor focuses on giving to the early stages of an organization or program. Entrepreneurs often prefer to support the high-risk start-up period of an exciting new program with significant potential. Their strategy is to seek out the less obvious, smaller program with great promise of impact, to step in where others may not, and make a dream a reality. This approach will likely not include on-going funding over a long period of time. The entrepreneur with this giving strategy tends to view his job to research and find the promising new projects, help launch them, and then let others provide long-term support as he finds yet another start-up to help underwrite.

BENEFITS TO THE DONOR

There may be benefits to the donor to fund a program for a season and then back off. It affords the donor opportunity to:

- ✓ Reallocate funding to more effective programs in the same sector
- ✓ Free up funds for other types of projects (which may be more strategic or urgent)
- ✓ Preserve funds for later use (especially if investment returns have been poor)
- ✓ Facilitate experimentation, consider creative alternatives
- ✓ Provide flexibility for other pending projects on the horizon

But it is difficult to construe this as having some benefit to the grantee. That losing a donor is beneficial—in the interest of not becoming dependent—is quite counterintuitive to the nonprofit executive. He knows full well that the organization is dependent, and that changing on whom it depends is time-consuming and expensive.

UNHEALTHY DEPENDENCE

Some nonprofits develop an unhealthy dependence on one or a few donors. This is characterized by taking the donor for granted and neglecting fundraising so that, were a donor to terminate funding, the organization could not readily replace the lost capital. This type of corporate behavior rightly makes a major donor nervous. He can feel trapped, taken for granted, used. This is a matter for serious discussion with the grantee.

John Rowell, in his book, *To Give Or Not to Give*, states that unhealthy dependence is to be avoided in international missions giving; however, he argues compellingly that this principle can be abused to withhold funds and that “dependence” is not necessarily bad. He describes a mutual inter-relationship that is very constructive for grantor and grantee.

A PRUDENT, BALANCED APPROACH

There is value to both donor and grantee to maintain support of a program over an extended period of time. This should not create unhealthy dependency. It lightens the burden on both. If a donor has a deliberate strategy to provide short-term capital, he should so advise his grantee early on. Nonprofits will always be dependent. But donors chose *how* dependent, and for *how long* they may depend on the donor.

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