

Rethink Charity

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Author, "Uncharitable"

Charity has come to business. From the holistic approach of Whole Foods to Product RED's directing corporate advertising dollars to Target's massive charitable giving program, business is realizing that making a difference in the world makes a difference for a brand. They are realizing that Milton Friedman's insistence that social causes had no place in business overlooks the competitive advantage created when companies align with a cause.

Yet the sad reality is, 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 business. But the truth is, society does not permit it. This reality is not likely to cease without revisiting some fundamental canons in charity. What we mean by "act more like business" is really, "focus more on lowering overhead," the opposite of what it takes to build a successful business.

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

The word "profit" comes from the Latin noun *profectus*, meaning "to progress." So the term "nonprofit" means literally, non-progress. The sector remains bound by its Puritan roots. Although the Puritans were aggressive capitalists, they were also Calvinists. Calvin taught that self-interest was a sure path to eternal damnation. Big problem for a capitalist. Calvinists constructed charity to mitigate the reality of their self interest: On this side of the line we can make a profit, and on the other, which we shall call "charity," we will deny ourselves. Therefore, how could anyone make money in charity if charity was one's penance for making money? The merchants got free-market capitalism, and the needy got a religion, charity, which banished everything that worked in commerce. By and large, it is still what the needy have today.

In essence, we have two rulebooks: one for charity and 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. The illogic of it is breathtaking. This sends the top talent from 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 do not want important causes "wasting" money on paid advertising. Therefore, 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 percent of GDP since we first began to measure it. Charity is not gaining market share. How can it if it is not permitted to market?

We let for-profit companies invest in the long-term to identify new sources of revenue,

but we want our charitable donations spent immediately to help the needy. All results must be measured against expenditures in 12-month windows, and a 65 percent return is required. No wonder charities cannot scale to the size of the social problems they confront.

We are not 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 the attorney. The result? Charities are petrified to try bold new revenue-generating endeavors and cannot 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 charities to pay a financial return (“profit”). The result? The for-profit sector monopolizes the capital markets while charities are left to beg for donations.

Policing these situations is a deadly question that grossly oversimplifies reality: What percentage of my donation goes to the cause? Experts agree it is the worst possible question we could be asking. Why?

- 1) It tells you nothing about how the charity is spending the money that goes to the cause. A soup kitchen can tell you 90 percent of your money goes to the cause and you’ll never know they’re serving rancid soup.
- 2) Charities game the system. They broaden their internal definition of “the cause” to give you any number you want to hear (they then use that number to tell the public they are more “efficient” than another charity that is actually doing better work, but that uses far more conservative accounting.
- 3) It creates a fictional demon called overhead, which characterizes as negative anything and everything designed to build the organizational strength to solve problems.

We’re rethinking business. So why not rethink charity? It is time to give charity the big-league freedoms we give to business: the freedom to get the best people and pay them whatever it costs for the value they can produce; the freedom to buy ads on the Super Bowl, even at a cost of \$2.6 million a pop, to start building market demand; the freedom to take big risks to earn big revenue, to fail big if that’s what it takes to learn; and the freedom to start attracting capital in a stock market by paying investors a financial return. The fight for these freedoms must be our new cause because without these freedoms, all of our causes are lost.

Dan Pallotta is the founder of Pallotta TeamWorks, which created the multi-day, four-figure pledge minimum charitable fundraising event category. The company invented the AIDS Rides, the AIDS Vaccine Rides, the African AIDS Trek, the original Breast Cancer 3-Day walks, and the original Out of the Darkness suicide prevention overnight event. These events grossed \$556 million in donor contributions and netted \$305 million for charity after all expenses in nine years – more money, raised more quickly for these causes than any known private event operation in history. The company also drew its share of vocal critics who took issue with the for-profit company’s marriage of compassion and capitalism at a time before notions like “venture philanthropy” and “creative capitalism” were in vogue. Dan graduated from Harvard University in 1983 and lives in Los Angeles with his partner and their three children.