

"An Apollo program for American philanthropy and the nonprofit sector."

—ROBERT F. KENNEDY, JR.

**HOW THE  
NONPROFIT COMMUNITY  
CAN STAND UP FOR  
ITSELF  
AND REALLY  
CHANGE THE WORLD**

# CHARITY CASE

**DAN PALLOTTA**



## Praise for *Charity Case*

“*Charity Case* is an Apollo program for American philanthropy and the nonprofit sector. Pallotta’s understanding of the hamstrung nonprofit sector is poetic and therapeutic. His prescription is sensible and profound. *Charity Case* will inspire its readers with an expansive sense of possibility.”

— **Robert F. Kennedy Jr.**

“*Charity Case* is visionary in its empathy. It sympathizes with the donating public’s confusion about how charity really works and with the nonprofit sector’s plea to be held to standards that engender trust and grow support. At that intersection lies the promise of a new era of enlightenment about charity and social change.”

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— **Andrew Watt, president and CEO, Association of Fundraising Professionals**

# Charity Case

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HOW THE NONPROFIT COMMUNITY CAN  
STAND UP FOR ITSELF  
AND REALLY CHANGE THE WORLD

Dan Pallotta

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*To Annalisa, Sage, and Rider.  
May you live in a world that  
thinks different about making a difference.*

This crime called blasphemy was invented by priests for the purpose of defending doctrines not able to take care of themselves.

—ROBERT GREEN INGERSOLL



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# Preface

**M**y previous book, *Uncharitable*, was about how our system of charity undermines the causes we love. This book is about how we can undermine that system. *Uncharitable* was about a problem. This book is about a solution. *Uncharitable* was about our plight. This book is about deliverance. For those of you who haven't read *Uncharitable*, a synopsis is included in Chapter One.

It was right for the problem to occupy center stage in *Uncharitable* so that we could meditate on just how damaging the problem is. I didn't want to propose a bunch of solutions. I'll make an analogy to mourning: when you've lost someone you love, you don't want people trying to cheer you up with platitudes. You just want to grieve and be present to the gravity of what's happened to you. In *Uncharitable*, I wanted to be present to the dysfunction that arises out of our rigid and religious ideas about charity.

In *Uncharitable* I described how the system of values and ethics governing the conduct of charity today is actually a religion that was formalized some four hundred years ago by the

early Puritan settlers in New England. I discussed how that system was designed to secure the Puritans' salvation in heaven and avoid eternal damnation in a hell hereafter.

This book is about designing a system that can solve social problems. If we can solve some of the great social problems that have plagued and vexed humankind since the beginning of time, that will be heaven enough. And it will rescue billions of human beings from a hell all too present for them in the here and now.

The Puritans believed that problems like poverty were ordained by God and that they would and should be with us forever. This book is about designing a system of charity that responds to our real capacity to eradicate these problems once and for all—and in our lifetime.

In his 2007 keynote address at the MacWorld Conference, Steve Jobs claimed boldly, “Today, Apple re-invents the phone,” and he proceeded to unveil the iPhone. If we can do it with the phone, we can do it with charity.

Let us begin the reinvention of charity. How? By creating a national leadership movement specifically for that purpose.

Unlike many other books written about the sector, this one is not academic. It's not a new theory, and it's not about a new way of thinking about giving. It's an immediately actionable plan to get the public to adopt a new way of thinking about giving. That's a big difference. That Zen monks may have found the key to enlightenment is of no consequence if there's no plan to get everyone enlightened.

Why focus on changing the way the public thinks about charity? Why that lever? Because it's the only lever that really matters. Because the general public donates 75 percent of the

\$300 billion given to charity every year. Because elected officials and regulators create public policy and contract guidelines based on what they think the public wants. Because board members are also part of the general public. Because charities base their business strategies on what they think the public wants. And because what the public wants is still based on what the Puritans told them they should want four hundred years ago. The way the public thinks about these things gives rise to the system that obstructs us, so it is appropriate to transform the way the public thinks about these things.

It will not happen by accident. It will happen by the power of our own will and commitment. This book is not about a solution that someone else will put in place. It's not about what I'm going to do. It's not written for "them"—the power brokers, the heads of the gigantic institutional funders, the senators and congressmen and congresswomen, although it is for them too. This book is written for all of us: the executive directors, development directors, executive assistants, program directors, fundraisers, communications staff, medical researchers, clinicians, event coordinators, social workers, finance staff, human resource staff, volunteers, donors—all of us who work, day in and day out, to make this world more human within a system that fundamentally works against us. It's about a solution we will have to put in place and about the things we will need to do to put it in place.

It's a road map for how we will organize the transformation of charity.

"Transformation" is one of those words that has lost all equity and meaning through overuse. It gets conflated and interchanged with the word "change." But change and transformation are

not the same. “Transformation” means to transcend form. It requires the surrender of all previous forms and all previous reference points.

Change is a faster caterpillar. Transformation is a butterfly. The purpose of this book is to encourage us to take flight and to show us how.

*June 2012*

Dan Pallotta

*Cambridge, Massachusetts*

# Special Note

**T**he word profit derives from the Latin *proficere*, which means progress. Thus, the term nonprofit means, literally, nonprogress. Beyond that, it has the distinction of being the only sector whose name begins with a negative.<sup>1</sup> It apologizes for itself before it starts.

The sector could not have a worse name. It sends the public all of the wrong signals, and it is time we changed it. Therefore, with a few exceptions, like in quoted passages or where it serves legal accuracy, I don't use it. (You may ask why it appears on the cover. It's because that's the word in common use today, and my publisher and I wanted to make sure everyone will know what the book is about.)

I instead refer to the sector throughout the book as the humanitarian sector. Others call it the social profit sector, the third sector, the independent sector, or a number of other things. Any one of them is better than nonprofit. Hearing it described repeatedly as something other than “the nonprofit sector” might feel annoying—like it's work just to read it. It feels annoying to me. But that's the way it always feels when you're correcting a bad habit. Next time you think about using the word nonprofit, liken it to a really bad habit like using chewing tobacco. That might help break it.





# Charity Case



# And You Thought Public Perception of Congress Was Bad

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Public opinion is a permeating influence, and it exacts obedience to itself; it requires us to drink other men's thoughts, to speak other men's words, to follow other men's habits.

—WALTER BAGEHOT, "THE CHARACTER OF SIR ROBERT PEEL"

**T**he money never gets to the people who need it." That's the familiar refrain we hear whenever the subject of charity comes up in casual conversation.

A Google search for "charities waste money" generates 3.6 million results—about twenty-five times more results than a search for the phrase, "charities use money wisely." It hardly constitutes a scientific inquiry, but it probably means we can conclude that people who don't trust charities outnumber people who do.

Similarly, people's comments in the blogs, articles, and forums picked up on a simple Internet search reveal a pervasive public distrust of how charities conduct their business. One person wrote about not understanding why charities waste money on pens and note pads when they could be using that money to help the cause. Another devised a whole new (and very problematic)

approach to giving—circumventing charities entirely—to avoid “charity waste”: “I never donate a dime to a huge charity. . . . What I like to do is direct donations into what I call ‘micro-causes.’ . . . For instance, if the *NY Post* writes about a house burning down in Brooklyn and [about] a now-homeless family—put [the family] up in a hotel. . . . [That way] you know that every dollar is being put to work exactly the way you want it to be.”<sup>1</sup>

Other comments, like this one from a watchdog blog, were critical of specific charities: “The American Cancer Society spends 9.6% of its revenue on administrative expenses and another 21.8% on raising more money. Thirty cents out of every dollar you donate won’t go towards anything cancer-related.”<sup>2</sup> Really? Raising money to make cancer research possible isn’t cancer related? Although targeted toward a single charity, the assertion exemplifies the illogical yet widely held view that money not spent directly on what is perceived as “the cause” is money not spent on the cause at all.

Sentiments like these are available prefabricated for anyone in the market for an impassioned opinion on the subject, and they get distributed free of charge by the media and the masses. De Tocqueville said, “In the United States, the majority undertakes to supply a multitude of ready-made opinions for the use of individuals, who are thus relieved from the necessity of forming opinions of their own,” or, as a good friend of mine says, people are all too prone to mistake certainty for knowledge.<sup>3</sup> He’s right. And because the demand for cheap, prepackaged oversimplifications of complicated subjects is very high and because, in some cases, people are looking for a quick excuse not to give, these off-the-shelf positions proliferate and quickly harden into stereotypes.

As a result, Americans are convinced, in large numbers, that charities waste money—they spend too much on “overhead” (never mind what that word actually means) and too much on executive salaries, offices, hotels, meals, trips, fundraisers, conferences, and staff. In the end, most people believe that the money donated doesn’t really go to “the cause.” Of course, “the cause” is defined extremely narrowly: if hunger, then soup—but not the spoon, the bowl, the stove, the fundraiser that got the money for the stove, or the postage on the thank-you note sent to the donor who donated the money for the stove. Just the soup molecules themselves.

## A History of Suspicion

Studies and history consistently confirm this public sentiment. Documented public distrust of charities dates back to the mid-1800s. People were suspicious then that philanthropy was just a way for the wealthy to “atone” for their success and evade taxes.<sup>4</sup> A few decades later, “charity organization” societies began to develop, not to provide services but to “monitor the aid that was being given and to uncover fraud.”<sup>5</sup>

In the 1970s, public concern about fundraising and administrative costs in charities grew.<sup>6</sup> Historian Robert Bremner notes that by the end of the 1970s, “twenty states and numerous county and local governments had adopted laws or ordinances limiting charity solicitations to organizations that could prove a sizable proportion of the collection went for charitable purposes rather than for salaries and administrative costs.”<sup>7</sup> (Many of these were subsequently rendered unconstitutional by U.S. Supreme Court rulings.)

Paul C. Light, a professor at New York University's Wagner School of Public Service and an expert on public opinion on the sector, notes that things deteriorated further for charities after the attacks of September 11, 2001, when the media and others jumped all over the Red Cross for the speed and manner with which it disbursed donations to victims.<sup>8</sup> The criticism, predictably, had a huge effect, even though it was unfounded. The *Chronicle of Philanthropy* reported in 2002 that a whopping “forty-two percent of Americans said they had less confidence in charities now than they did before the attacks because of the way charities handled donations.”<sup>9</sup>

Six years later, things hadn't improved. In 2008, Ellison Research surveyed 1,007 Americans and found that “sixty-two percent believe the typical non-profit spends more than what is reasonable on overhead expenses such as fundraising and administration.”<sup>10</sup> A March 2008 survey by the Organizational Performance Initiative at the Wagner School of Public Service also found that “Americans remain skeptical of charitable performance” and that “estimates of charitable waste remain disturbingly high.”<sup>11</sup> Only 17 percent felt charities did a “very good job” running programs and services.<sup>12</sup> The study also showed that an astounding 70 percent of Americans believed that charities waste “a great deal” or “fair amount” of money. Just 10 percent of Americans interviewed thought that charities did a “very good job” spending money wisely.<sup>13</sup> To put that in perspective, even Congress, at its worst, fares better. In November 2011, Gallup reported congressional approval at an all-time historic low of 13 percent.<sup>14</sup>

It's a sad state of affairs when you wish you had the approval ratings of Congress.

## A Circular Mess

Despite the abundant evidence that the public believes charities waste a great deal of money, I know of no study—and certainly not one that has ever been distributed to the public—showing that charities actually *do* waste money. I'm not aware of any research showing that charities are ineffective at running programs or that they spend more than is reasonable on fundraising and administration, systemically or otherwise. Indeed no logical standard exists for what is reasonable.

I come from this sector. I have worked very closely with many dozens of humanitarian organizations for over three decades. I have worked with hundreds of leaders and professionals inside the sector. And I can tell you that there is no legitimate reason for so many people to have such a low opinion of charities. Robert Kennedy once said, “One fifth of the people are against everything all of the time.”<sup>15</sup> If one-fifth of the people said they thought charities waste a lot of money, I wouldn't be concerned. But 70 percent?

At the heart of this low public opinion is the power of suggestion. The word we hear most often when it comes to assessing charities is “overhead”: low overhead, high overhead, “ask about overhead,” overhead ratings, and everything-else-overhead. Now, if I tell you not to think of an elephant in a cocktail dress, you won't be able to get the image out of your head. Similarly, if the first word that comes to mind when you think about charity is “overhead,” and if you are programmed to associate overhead with waste, it follows that waste and charity will become synonymous to you and the rest of the culture.

How do we change this?

Actually it's not clear that public opinion is what we should be trying to change. Low public opinion is a reflection of deeper problems: the sector's apparent inability to move the needle on huge social problems. So asking how we change public opinion is a little like looking at an X-ray that shows you have a tumor and asking how you fix the X-ray. But that's not a perfect analogy because in the case of charity, low public opinion means lower contribution levels, which further inhibits our ability to address huge social problems. To continue the analogy, in the case of charity, the X-ray actually has the ability to make the tumor worse.

When we peel back the layers to examine how public opinion influences charities' behavior, we see that it's a circular mess:

- Charities' fear of public disapproval pressures them to cater to public prejudices—mainly lowering overhead, that is, administrative salaries, fundraising investment, marketing expenditures, and so on.
- The more charities give the public what it wants—low “overhead”—the less those charities can spend educating the public about what they actually do. And the public considers any effort by charities to educate them about what the charities actually do to be wasteful overhead to begin with.
- The less the sector educates the public, the lower the public's opinion of the sector remains.
- The more that charities give the public what it wants—again, low overhead—the less they can grow and therefore the less significant their long-term achievements. Long-term achievements require short-term spending, which yields zero short-term results but increases short-term overhead—which the public abhors.



- The less dramatic the sector's long-term results are, the lower the public's opinion of it.

These conditions are not new. For hundreds of years, charities have been forced to follow a rule book that doesn't allow them to spend money on the things they need to achieve real change. Both despite this frugality and because of it, they are then accused of being wasteful. The humanitarian sector is not innocent in this. It has allowed itself to be victimized. In fact, it can be relied on to allow itself to be victimized.

The sector must reject the role of victim. We must work to improve the sector's public image while simultaneously having the courage to spend money on the things we need to create real change. This will, ironically, have the effect of improving public opinion. Positive public opinion and effecting real change are inexorably linked—and they are at the heart of our dreams for humanity.

This book is about finding the way forward to make our dreams for humanity a reality. It's about confronting the four-hundred-year-old rule book by which all organizations fighting for worthy causes—from disease to poverty to injustice—are forced to play. It's about retiring it—putting it in a museum alongside fossils of the earliest known vertebrates and diagrams of the sun revolving around the earth.

We need a civil rights movement for charity—and this book is about how we start one.

## **How I Got Here**

Forensic investigation of structural dysfunction in social change wasn't what I originally intended to do with my life. I wanted to

be a goalie in the National Hockey League. Then I wanted to be the next Bruce Springsteen. But I had neither the reflexes for the former nor the melodic prowess for the latter. And in any event, I got distracted from both pursuits during my first year in college, when I began to learn for the first time about the numbers of people dying of hunger. I can still remember the 1980 statistics: 15 million human beings dying every year of hunger and hunger-related disease, two-thirds of them children. Millions of kids dying every year of diarrhea? For a kid used to contemplating hockey pucks, it was a staggering figure. A staggering thought.

This was around the time the Hunger Project was launched by Werner Erhard, the creator of the est Training. The project's goal was audacious: to end hunger by the year 2000. Now, I was eight years old when Neil Armstrong walked on the moon. The idea that we could get to the moon by saying we were going to do it—the sheer power of declaration—was and remains the most exciting thing in the world to me. So when Erhard said we could end world hunger by saying that we were going to do it, I was hooked.

The Hunger Project did not meet its goal of ending hunger and starvation within twenty years. But it started the conversation that no one else was having: the conversation that will eventually end hunger in our lifetime. It said, “We can do this—we can end this.” The conversation until then had been limited to, “Eat your food because there are people starving in the world,” or, “We have to help people in whatever little way we can.” It was a timeless conversation resigned to the persistence of the problem, summarized four hundred years ago by Puritan leader John Winthrop in his famous sermon, “A Model of Christian Charity”: “God Almighty in his most holy and wise providence hath soe disposed of the Condidion of mankinde, as in all times some must