

CAUTIONARY TALES

Cautionary Tales . . .

Nonprofit Style

by the editors

Why do so many of us insist upon learning from our own mistakes rather than those of other poor souls? Here we give you one more chance. Take heed of these tales of nonprofit organizations—large and small—that wander down the wrong path and embarrass themselves.

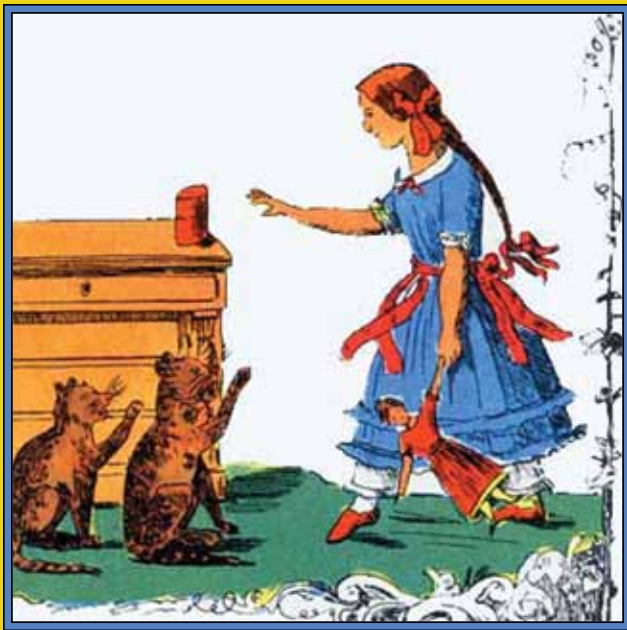
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here is an old cautionary tale, made most famous by Hilaire Belloc, that warns the reader of the dangers resulting from bad choices. The consequences are usually related in grisly

detail—a child bursts in half as a result of gluttony or is eaten by a lion when he runs away from his nurse, and so forth.

We at *NPQ* have our own versions of such tales. Because *NPQ* surveys the news each day, producing newswires from the stories we feel will be most instructive, we have a bird's-eye view of some of the more repetitive behaviors—those that embarrass not only the groups named but their unassailable colleaguest, too, who suffer from the public's sometimes broad-brush judgments based on tales of mild to acute incompetence that snowballed into scandal.

We thought to highlight some of the more archetypal stories we found to have been most prominent in the last year, so that they might help your organization avoid some of the pitfalls described therein. But we suggest that you keep an eye on our daily newswires, because below represents merely a fraction of the instructive fables to which they give you access.



*Now, on the table close at hand,
A box of matches chanced to stand;
And kind Mamma and Nurse had told her,
That, if she touched them, they would scold her.*

*But Harriet would not take advice:
She lit a match, it was so nice!*



*And see! oh, what dreadful thing!
The fire has caught her apron-string;
Her apron burns, her arms, her hair—
She burns all over everywhere.*

*And when the good cats sat beside
The smoking ashes, how they cried!*



I.

Court Your Stakeholders as If You Love Them

One of the most under-discussed skill sets in nonprofit management lies in the area of identifying, prioritizing, and properly addressing stakeholder interests.

One of the most under-discussed skill sets in nonprofit management lies in the area of identifying, prioritizing, and properly addressing stakeholder interests. In some cases, this blind spot has led to the default valuing of one set of stakeholders over another, even when no clear decision was made to do so. Recent stories we have covered indicate that this practice has become increasingly dangerous in the age of social media, a platform from which those stakeholders—whether constituents, donors, or staff—have a greater capacity to organize themselves to embarrass or oppose the formal power structure of nonprofits. We have seen so many instances of such revolts over the past months that we were moved to include a feature about stakeholder revolts in this issue—“The Voice from Outside: Stakeholder Resistance in Nonprofit Organizations,” by Sean Buchanan and Patricia Bradshaw.



Community Volunteers Step In to Save a Y

May 9, 2011; *Club Industry* | In early 2011 in Elmira, N.Y., the Chemung County YMCA decided it could not go forward any longer. Owing \$8,000 in rent, it had agreed to volunteer all of its fitness equipment to the county, when the community stepped forward and proved that it fully “owned” the endeavor. More than two thousand local residents signed a petition asking local officials to help find a solution, while small grassroots groups of elders and young people from a nearby university met and considered what might be done to save the Y.

All of this paid off, with the Y being adopted by a local senior center. A number of former Y members have made donations and have taken on annual memberships. A committee made up of some of the former members of the Y and some senior center representatives have devised a new budget, including new fees and programs. They have also gotten started on the facility’s refurbishment.

This is an interesting and profound situation. Did the Y know that this support was present? Did it not consider how it might be mobilized? And did it take a crisis to convince local people that they truly needed to “own” this community resource? Lots to ponder here as we consider what wasted resources in the form of people might be present around our own organizations.

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These kinds of conflicts are often most acute when the organization has advertised itself as doing more consultation with stakeholders than it has actually done. . . .
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Lesson from the Trenches: Don’t Sugarcoat Conflicts While Doing Strategic Planning

August 17, 2011; *Philadelphia Inquirer* | The Philadelphia Orchestra has been working on a strategic plan to address financial problems resulting from a reduction in revenue. But on the eve of a three-week European tour, eighty of the company’s one hundred musicians formally rejected the plan’s recommendations in a letter to orchestra president Allison B. Vulgamore and board chair Richard B. Worley.

As reported by the *Philadelphia Inquirer*, the musicians said in the letter that “[t]he document and its suggestions have serious flaws, and we do not believe it will do what a strategic plan is supposed to do: create a plan for the future that protects the music we create and builds on our legacy as one of the world’s greatest orchestras.”

The musicians say that they do not have an alternative plan at this time, but they think that the process needs to be started over from scratch. What is confusing about the situation is that the process has been touted as one that involved the musicians and was an expression of institutional cohesiveness. The musicians, however, say that they were involved only in the early stages of the process and were then left out when the organization’s financial crisis became more severe.

“That’s why we were surprised by repeated public statements that we were somehow involved in the drafting” [of the association’s plan], the letter says. It goes on to say:

As Ms. Vulgamore said in July on CBS, “The conversations with the musicians started in October. So we’ve been working together for a long time.” No,

we worked together “a long time ago.” As you know, we did not even see a draft of the plan until just before it appeared in the newspaper at the end of May—more than six months after our involvement in the planning process ended.

If this is true, of course, then this earthquake was inevitable. You cannot turn engagement in decision making on and off without making the process crystal clear. These musicians, like those in many other companies, have now evidently been turned into activists. Though they had been silent about the strategic plan, they did oppose the orchestra’s decision to file for bankruptcy in April, so there was every reason to believe that leaving them out of the last stage of the strategic planning process would result in their opposition.

Of course, as with every labor-management dispute, there is probably a lot more here than meets the eye. But a good lesson we might reiterate is to advertise only as much engagement as actually exists.

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Many of these stories come down to a question about how much say various stakeholders should have in the direction of an organization. More and more, we see people collectively declaring “not in my name you don’t!” and, alternatively, organizations opening up to new forms of democratic involvement in decision making. NPQ believes, of course, that the power and influence of this sector is in the engagement of its stakeholders, but this is not the only sector considering such stuff. . . .
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 **Iowa City School Board Looks at Models of Democratic Governance: Listen Up Nonprofits and Philanthropy!**

September 14, 2011; *Iowa City Press-Citizen* | There are sometimes odd and surprising ways in which the nonprofit sector demonstrates its influence in other realms of our society. A guest editorial in the Iowa City newspaper addresses questions of how the seven-member Iowa City Community School Board functions.

The writer is Sarah Swisher, herself a member of the school board. She takes to task people from the corporate world who have been drawn to the board-governance model developed by John Carver. Swisher suggests that this model has drifted from its origins in the for-profit sector into the nonprofit sector because so many corporate types now serve on nonprofit boards. She notes that the Carver board-governance model emphasizes “strong executive leadership that is minimally limited.”

But Carver went too far in marketing his trademarked consultant-attracting “Carver Model of Policy Governance” to a publicly elected school board, Swisher says. To provide a CEO with “a false carte blanche providing he doesn’t fail to succeed” (double and triple negatives litter the language of the Carver model) is simply not what voters want when they elect school board members. As an alternative, Swisher suggests a “deepening democracy” model called “Empowered Participatory Democracy . . . [in which] committees and task forces have real voices and authority.” That means involving parents, teachers, students, and union members in very active, hands-on tasks—such as interviewing and hiring school principals—that strong CEOs might see as injecting too much citizen intrusion into the process.

Board governance models are topics of active debate in nonprofit and philanthropic circles, but the mechanics of publicly elected boards are usually rooted in past practices that few people are wont to question, much less change. To see the nonprofit sector’s debates brought into the public sector is a testament to the increasing influence of nonprofit-sector principles of good governance, as well as a reflection of the demand of many people to improve the workings of American democracy. But nonprofits might also want to take this moment to reconsider their own governance processes—and if you have not read it already, we would suggest the NPQ article “Community-Engagement Governance™: Systems-Wide Governance in Action.”

Moral of the story: Honor your stakeholders lest they embarrass the pants off of you and also because it is the right and powerful thing to do.

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II.

The Mystery of the Disappearing Execs

Many organizations go through awkward leadership transitions, but something you do not want to create is an information vacuum into which the public can insert its own speculations. For one thing, there are some people who just will not rest until they find out the story behind the story.

Continuing on the topic of nonprofit accountability, we have noted during the past year many stories of nonprofit leaders on duty one day and gone the next without explanation. This appears to us to be a practice tailor-made to raise questions and speculation in the minds of the public, along with a general sense of distrust. The larger issue here is the lack of understanding these organizations exhibit about the value of their reputations. Because, if they understood that value, they would take the time to figure out what their communication strategy needs to be. Below are two such cases that occurred within days of each other.



How to Raise Sticky Questions in the Minds of Your Public: Clam Up

August 26, 2011; *Appleton Post-Crescent* | Many organizations go through awkward leadership transitions, but something you do not want to create is an information vacuum into which the public can insert its own speculations. For one thing, there are some people who just will not rest until they find out the story behind the story.

Earlier this week, the board of the Emergency Shelter of the Fox Valley in Wisconsin abruptly dismissed its executive director of thirteen years, Debra Cronmiller. The only comment on the dismissal came from John Russo, the board vice president, who told the *Appleton Post-Crescent*, "We felt a change of leadership was appropriate at this time. While timing of these decisions is a matter of judgment, we felt the time was appropriate to make this change." Somewhat mysteriously, Russo also said that the board had had no problem with the executive director's performance.

Board president Kurt Eggebrecht was equally vague. Speaking about the search for a new director, he told the *Post-Crescent*, "We recognize some of the core responsibilities that that position has. I think that's something the executive committee will be finalizing and bringing to the board for final approval."

Hmmm. Russo says he hopes that donors will continue to be generous to the shelter. We would be willing to bet that some will have questions they want answered. Again, and we say this repeatedly, consider your message carefully

in a crisis. (Great guidelines can be found in the classic NPQ article by Kim Klein, "Mission, Message, and Damage Control." Keep this in your permanent file!)

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The next story is interesting because the departure of the co-executives seemed to have happened abruptly, though there had been questions circulating about the organization's leadership for years. Still, the communications plan did not get ahead of the incident. Of course, the organization was also the source of a good deal of money flowing into the community—an awkward power mix. . . .
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Abrupt Departure of Leadership at High-Profile San Diego Nonprofit

August 30, 2011; *Voice of San Diego* | The neighborhood served by the high-profile Jacobs Center for Neighborhood Innovation was surprised this week by the sudden departure of its two leaders, Jennifer Vanica and Ron Cummings. According to the local news website *Voice of San Diego*, the married couple have acted as CEO and COO respectively for the past sixteen years. It is not clear if they resigned or were asked to leave. NPQ is interested in the story behind the story on this mysterious turn of events.

The project has been relatively controversial from the start. The organization was founded and funded by Joseph Jacobs, a Los Angeles entrepreneur, and it has become a major developer and landowner. But there have always been questions, some raised by Jacobs himself, about whether the program's leadership was unrepresentative of the low-income southeastern San Diego neighborhoods the program is aimed to improve.

Board chair Valerie Jacobs said only that this turn of events means that the organization is on track to meet its long-term founding goal of transitioning leadership to better reflect the community in which it operates. According to *Voice of San Diego*, the nonprofit says that approximately 90 percent of the residents in communities served by the Jacobs Center are "ethnic minorities," while both Vanica and Cummings are white, as are most of the senior team and the board, who are all members of the Jacobs family.

Roque Barros, who has been associated with the Center's efforts to build relationships with the community, has been named interim president. "I'm from the community,

I've been here a very long time," Barros told the *Voice of San Diego*. "It is part of what we've been talking about, transitioning our leadership. For us this is really an exciting moment, resident ownership of leadership change."

The constancy of these types of stories led us to take note when the CEO of Yahoo let it rip about the exact circumstances of her own transition. We thought the straightforward nature of the communication was quite instructive. . . .

 **Nonprofits Could Learn a Thing or Two from Yahoo When It Comes to "Executive Transition"**

September 08, 2011; *All Things Digital* | To all,

I am very sad to tell you that I've just been fired over the phone by Yahoo's Chairman of the Board. It has been my pleasure to work with all of you and I wish you only the best going forward.

Carol

So went the e-mail—today's equivalent of a break-up by Post-It Note—sent out to staff by the then-CEO of Yahoo, Carol Bartz. Why would NPQ cover this? Only because we have been tracing a recent rash of disappearing CEOs at nonprofits, like the Jacob Center for Neighborhood Innovation last week—stories of leaders who are standing up at the Kiwanis Club podium one night and then—poof!—are gone the next morning, with no indication of the reason or even whether they were fired or resigned or had made off to the Cayman Islands with half of what remains of the endowment.

This is occurring even at the very highest levels, with a case in point being the mysterious vanishing act of Patrick Corvington at the Corporation for National and Community Service. We hear that people are still looking behind the curtains to try to figure out what happened. Talk about a board practice designed to erode confidence: the now-the-wonderful-CEO's-here-and-now-he's-not trick has to be one of the lowest.

At least in this case we are all clear about how the dirty deed at Yahoo occurred, who did the deed, and what the reaction was of the CEO in question. A refreshing change. And actually the market cheered Bartz's forced walk off the gangplank. Yahoo's stock rose at the news. It would be nice if communities could get such clear information

about the nonprofit/philanthropic world; that way, donors and communities would be able to pick their horses with some sort of confidence.

This section concludes with a refreshing alternative in an example of what appeared to be reasonable executive transition-related communication on the part of a nonprofit. . . .

 **A Community-Based Organization Shows How to Communicate Clearly about a Crisis**

September 13, 2011; *San Antonio Express-News* | Last week NPQ wrote approvingly about Yahoo CEO Carol Bartz's having been unexpectedly and summarily fired. We suggested that the often-secretive behavior of nonprofits at times of abrupt executive transition is off-putting, and erodes confidence and connections with stakeholders.

That's why this story about Project Quest, a workforce development program in San Antonio, is notable for the communications steps the agency undertook during a recent crisis, including a meeting with the editorial board of the local newspaper, the *San Antonio Express-News*. The organization recently found itself in "debilitating debt"; facing another large deficit this year, it had come to the conclusion that it needed a new leader—someone who could spend more time doing the kind of high-profile political work the agency needed at this crucial time.

Incumbent director Mary Peña openly admitted that she was not the right person for the task ahead and decided to step down. "This has always been a high-profile job," she told the *Express-News*. "It's always been political. I have personal responsibilities that I didn't have back then. I've taken the organization as far as I can." The forthrightness of the executive transition at Project Quest appears to have impressed local government officials. "They have demonstrated to the city staff after an analysis that any shortcomings in the past are being remedied immediately," San Antonio Mayor Julian Castro told the *Express-News*, adding, "Project Quest has a track record of success with its students."

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The full story is probably more complex than a routine change in leadership. The Texas state comptroller's office is perhaps partly to blame for the agency's slide into debt. And we are sure there were some horribly painful moments. But all in all, this publicly funded agency appears to have comported itself with openness and dignity during a difficult time. Yahoo!

Moral of the story: Act like the public is intelligent and has a legitimate vested interest in your operation, and maybe they will want to invest in you.

III. *The Tragedy of the Sedated Board*

A lack of board oversight is well known to have potentially disastrous effects, but in an organization that appears to be flourishing under stable and productive leadership, an abrupt fall off the unseen cliff constructed by inattention can be especially shocking, and sometimes fatal. Such nonprofits can have excellent relationships with power brokers and a good reputation for service and still be on the verge of public humiliation. Take the following two cases, where the leaders were well known and respected but the boards were evidently asleep at the controls.



N.Y. Organization That Sparked Review of Nonprofit Pay Begins to Reform Itself

September 13, 2011; *Crain's New York Business* | Young Adult Institute (YAI), the large state-funded organization in New York State that serves adults with developmental disabilities, was taken to the public woodshed last month regarding its outlandish executive compensation packages, among other problems. A *New York Times* investigation found that brothers Philip and Joel Levy, who had led YAI since the 1970s, were each being paid just under \$1 million per year. In addition, the Levys billed taxpayers for luxury cars and the costs of their children's college education and living expenses. The story was quickly followed by a declaration by Governor Andrew Cuomo that he was authorizing a review of executive pay at all nonprofits that receive state Medicaid funds. NPQ took the position at that time that such a review should be focused not only on nonprofits but also for-profit vendors serving people in need.

Now YAI, which runs 450 programs serving 20,000 people a year, has come forward to announce the steps it is taking to reform its faulty governance system. Among other changes, approximately half of the nineteen trustees on the board will be replaced within the next year, and the replacements will include representatives of the developmental disability community. The compensation and pension committees will be completely reconstituted by the end of the year. Additionally, the pay of the chief executive will be keyed to the 50th instead of the 75th percentile among a peer group of executives, and the bonus system has already been overhauled.

In a September 7 letter to the acting deputy commissioner of the New York Office for People with Developmental Differences, YAI board chair Eliot Green said, "It has been a painful time as YAI has dealt successively with the fallout from the recent government investigation and settlement, followed by critical articles in the press and the understandable concerns of [state] officials ... We are not wasting a moment by being defensive or rehashing the past."

Even the most seasoned public figures apparently have enormous capacity for self-delusion when it comes to the rules for mere mortals. Here a candidate for state senate plays fast and loose with the conflict-of-interest policies of the organization he founded. Silly man! Did he not realize that the press would be interested?

But even if you do not decide to try to replace an Edward Kennedy / Scott Brown lineage, can't we all agree that these policies are there to protect us all? And that the people leading the organization are responsible for modeling the right behaviors?



Khazei Admits Error in Hiring Brother, Says He Has Learned from the Experience

August 30, 2011; *Boston Globe* | Four days after the *Boston Globe* scolded him for hiring his brother to do marketing work for his latest nonprofit venture without first getting board approval, City Year co-founder and Democratic U.S. Senate candidate Alan Khazei admitted that he made a mistake. In a letter to the editor of the *Globe*, Khazei writes:

The editorial "Brotherly love and denial" (Aug. 25) contained valid points. I made a mistake in not seeking the board's approval at Be the Change when hiring my brother, and I apologize for the error. Regardless of my confidence in his skills, his hiring should have been reviewed and approved in advance by the able board there. I deeply appreciate

the support that Be the Change has received and what it has been able to accomplish as a result. I have learned from this experience, and I remain a strong advocate for accountability for decisions made by leaders across the public arena.

Presumably Khazei hopes that his apology will close the book on a bad couple of weeks of publicity for him concerning his nonprofit organization. As *NPQ* reported previously, both Boston newspapers had looked into the hefty consulting fees Khazei was earning from Be the Change now that he had left the organization to run for Senate. Then came the news that Khazei had failed to get board approval before he hired his brother to do marketing work for the organization, paying him \$40,000 over three years. But Khazei's worst moment was when he initially tried to justify hiring his brother by invoking family loyalty and his brother's talents as a writer. That response exposed something troubling about Khazei's character, and prompted the *Globe* to publicly scold him in an editorial. The rebuke from the newspaper that endorsed his run for Senate in the 2010 special election apparently got Khazei's attention, prompting the apology letter that ran four days later.

Politics repeatedly attracts hard-charging figures from the for-profit and nonprofit sectors, who believe that they can bring to government a no-nonsense energy to "cut through the red tape" and "get things done." But sometimes, as with the board-approval requirement that Khazei skirted, that red tape is there for a reason. And the level of scrutiny one receives heading a private organization is no match for the microscope of politics. Khazei is not the first businessperson or social entrepreneur to find that out, and he won't be the last.

IV.

Opportunities for Self-Service Is Trouble for Nonprofit Boards

As long as we can remember, the question of whether or not an organization should do business with its board members has been on the table as a discussion point. It has long been *NPQ*'s position that the practice is pure folly. If a board member thinks he or she can bring value as a contractor, get off the board and support it in other ways—but do not both inhabit a top decision-making position in a public benefit organization and arrange to be

hired by them unless you really want to risk eroding all confidence in the organization's integrity.



Museum Founder and Former Trustee Adrift in Dangerous Waters

May 30, 2011; *PressofAtlanticCity.com* | This story is so convoluted that it is hard to really get one's arms around it, but we think the adage "don't try this at home" is apt. Apparently, Deborah Whitcraft, founder and curator of the New Jersey Maritime Museum, sold a property to William Burris, one of the trustees of the museum, but with a caveat: payments on the mortgage, which she held, were to be used to support the operating costs of the museum. The annual payments would have amounted to \$90,000 over a twenty-year period, or \$1.8 million altogether.

Way too close for comfort.

Anyway, Whitcraft is now suing Burris in Ocean County Superior Court, alleging that Burris stopped paying on the loan after he eliminated the security for the loan through a series of transactions, and left the museum high and dry. Says Whitcraft, "I have spent a lifetime building this museum, and it is completely disheartening to see a former member of our board of trustees causing such great damage to this beautiful place. . . . We carefully set up this loan to ensure a steady flow of income to the museum, and now Burris has ripped that apart."

Burris defended himself by saying that he had had to reduce the museum's call on him because he needed the money to defend himself in other lawsuits. No doubt.

Moral of the story? Even if you are the most charismatic and passionate founder on earth, that does not protect you from scoundrels and bad press when you cut corners and engage in such stuff as business transactions with members of your board.



Massachusetts AG Goes to Legislature to Ban Board Pay at Nonprofits

September 28, 2011; *Boston Herald* | On September 27, Massachusetts Attorney General Martha Coakley went to the state legislature's Joint Committee on the Judiciary to ask for its help in banning the practice of paying nonprofit trustees. The issue surfaced in the Bay State when an \$11 million salary and severance package was awarded to Clive Killingsworth, after he resigned from Blue Cross Blue Shield of Massachusetts. When it was revealed that the trustees themselves were also being paid handsomely, a penny

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dropped for Coakley. She told the *Boston Herald* that trustees should serve on a board like BCBS's because they want to look out for the best interests of the insured (who, by the way, have seen their rates climb on a fairly steep trajectory of late). Coakley said, "As a general rule, the historic reason that people volunteer to serve at public charities is because they have a fiduciary duty to the mission, not their own profit. . . . This bill would restore what has always been the practice, up until the last few decades."

We can still remember the verse: "There was a Boy whose name was Jim; / His Friends were very good to him. / They bought him Tea, and Cakes, and Jam, / and slices of delicious ham". . . . Thus starts one of Belloc's cautionary tales, where a boy ends up eaten by a lion. Would that you might recall so clearly even a month from now the lessons of these stories about the consequences of inattention to your nonprofit principles.



Fundraising Study: Closeness of Connection Should Drive Type of Appeal

July 18, 2011; *The Daily Texan* | The findings of a recent study suggest that if a donor is already close to a nonprofit, it should be approached one way—and a less-close relationship should suggest a different type of appeal. The study, which is due to be published in the *Journal of Experimental Psychology: General*, is based on five studies performed by researchers at the University of Texas, Sungkyunkwon University in South Korea, and the University of Chicago.

"Individuals who think of the beneficiaries in psychologically distant terms contribute more when you can find a way to signal to them that the charity's cause is important," Marlene Henderson of the University of Texas wrote the *Daily Texan* in an e-mail. "When you make people focus on what other people have already contributed versus what's still missing, people feel like the cause is more important and thus feel more motivated to give."

On the other hand, when donors feel more closely identified with the group they contribute to, the group meets its goal. These findings seem rather obvious, but we are looking forward to reading the study, because the way it was done was through "manipulating" the usual "us and

them" style of appeals to a "we and us" style. It's an interesting point for those who write appeals and think about the value of a good engagement strategy.

The question of the decade: How do online, direct mail, and face-to-face contact integrate to make a fundraising program that really sticks?



Don't Dump That Direct Mail Program! The Limitations of Online Fundraising

June 1, 2011; AdvisorOne | According to a recent study by Blackbaud, online fundraising is useful for acquiring donors, but less useful in retaining them—a valuable piece of information for hardworking fundraisers. Particularly interesting is the degree to which direct mail still plays a major part in retaining even those donors who give their first gift online.

According to Blackbaud, the findings were derived from the most recent transactional data available for the twenty-eight organizations participating in Target Analytics' donor-Centric online benchmarking service. The nonprofits in these online benchmarking groups are "prominent national nonprofits covering a range of sectors, including animal welfare, the environment, health, human services, international relief and societal benefit."

Other key findings about online donors:

- The majority of gifts are still received through direct mail, although it has become increasingly common for new donors to give their first gift online.
- Online-acquired donors are significantly younger, and tend to have higher household incomes than mail-acquired donors.
- Online-acquired donors tend to give much larger gifts, but have slightly lower retention rates than mail-acquired counterparts.
- In aggregate, online-acquired donors have much higher cumulative value over the long-term than traditional mail-acquired donors. However, long-term value varies depending on the donor's origin gift level, and the substantially higher gift amounts given by online-acquired donors can mask issues with retention.

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