



The Nonprofit Ethicist

by Woods Bowman

Dear Nonprofit Ethicist, Is it OK for a nonprofit organization to take grant money from an organization that has “unethically” received that money? Taking money from Boeing, for example, which makes aircraft that are used in war to drop bombs where innocent people die and communities are torn apart.

Cleaner Is Better

Dear Cleaner,

Clearly you will do more good with the money than a “dirty” donor, but there are some potential pitfalls to be alert to.

Some donors are trying to buy respectability. Imagine Tony Soprano giving the opera enough money to get his name on something. It’s not just because he likes Verdi. In real life, Richard Scrushy—indicted Health South CEO—lavished upwards of \$700,000 in 2004 to religious causes in Birmingham, Alabama, where he was on trial for securities fraud at the time. And, what do you know? The jury acquitted him. The Ethicist can’t read the jurors’ minds, but he is pretty sure what Scrushy was thinking when he made the gifts.

Some donors have made an investment in their own future. For years, Philip Morris lavished millions on the arts in New York City. It had a reputation for taking risks with new projects, which endeared it to many. Then, in

1994, during one of the early city council debates over a smoking ban, it contacted grantees to urge them to actively oppose the ban. As one compliant supporter said, “We were not lobbying on behalf of Philip Morris; we were lobbying on behalf of ourselves and the money pool.” (New York Times, October 8, 1994) No kidding.

This example is not as old as it seems—the fight dragged on for over a decade. Just this year the New York Times (February 4, 2008) reported that the business school at the University of Texas refused to take further money from “reliable donor” Philip Morris when it sought “a more prominent role in sponsoring events and more interaction with students.” Beware of altruism with strings attached.

Corporate money is especially tricky because most corporations are different shades of grey. Take your example: 52 percent of Boeing’s revenue comes from selling military systems and 48 percent from civilian pursuits (see Boeing’s 2007 annual report). If the numbers were the other way around, would Boeing then be a “clean” donor? Ultimately it is up to your gut: if a corporation turns you off, politely refuse its largesse. If you want inexpensive guidance about which firms are not likely to cause embarrassment, look at the portfolios of mutual funds that use ESG (environment, social and governance) screens. It’s

probably OK for you to cash the check of any corporation you find there.

Dear Nonprofit Ethicist,

I work for a medium-size human services nonprofit (with a \$30 million annual budget) that has accumulated an unrestricted reserve fund almost the size of its annual budget. The ethical quandary for me is that this reserve fund is not disclosed in the annual report or other public materials. Nonetheless, the organization tells donors and the community about budget deficits and that it lacks the funds to provide services. Moreover, as the result of cuts in government funding recently, the organization has also reduced the number of service centers and cut staff. This resulted in fewer clients being served. What’s your take on the nondisclosure in routine PR materials and the staff and client services cuts while maintaining such reserves?

Transparent

Dear Transparent,

All of this information is contained in the IRS Form 990 and posted on the GuideStar Web site. Are your organization’s donors so lazy that they won’t look it up? The Ethicist used to be an elected official. He saw a lot of people try to hide embarrassing information. It always came to light—usually at an awkward moment in the most unflattering way possible because it was

revealed by opponents (who else?). It is always better to be the first to tell your story. As the saying goes, "The best defense is a good offense."

Case in point: the Ethicist once served on the board of a nonprofit that provided housing for chronically mentally ill persons. It had the same problem with a huge reserve but it took the initiative to tell its story. It created several board-designated accounts: an operating reserve, an emergency repair reserve, and a reserve for new property acquisitions. The result of designating sufficient resources in these areas was a negative unrestricted, undesignated net asset balance. They didn't cook the numbers to force the negative balance. It was an honest, but clever, way of telling their story. The information was on its financial statements for all to see, but in a way that automatically and plainly showed why the organization needed a lot of money in reserve and why it needed even more money to run the organization.

Of course, it may be the case that it does have too much in reserve. The board should take a look at this issue and decide what the organization really needs. Maybe the organization should spend some of the reserve to avoid painful cuts that affect services. It seems like there is a shortage of insight and a surplus of inertia around your shop.

Dear Nonprofit Ethicist,

I used to work at a satellite office of a national membership organization. One day I received a phone call from a donor who indicated that he would have a check cut by his company and sent within the week, and I thanked him. A short time later, the director of membership showed me a check from the same company, which could not have been the same one discussed given the paperwork required. It seemed clear that this check was a corporate membership renewal. (Also, it was for substantially more money than we had discussed.)

When I pointed this out to the director of membership, her response was that it wasn't my place to tell them so. The director of membership was also married to the executive director of the entire organization. I already knew better than to take it any further than that. A week or so later, the other check (donation) arrived. It was entered, I sent the thank you correspondence that was expected, and carried on business as usual.

Bothered

Dear Bothered,

The Ethicist's day job is teaching nonprofit finance, so this one resonates. First reaction: What? It seems like there was a lot of sloppiness on both sides. Second reaction: As a large organization, don't you have a central system to manage your relationships with institutional supporters? Third: This kind

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of situation with marriages that span a chain of command is why we do not promote nepotism on our staffs. Finally: Whether or not the institutional supporter caught the mistake in the moment, what fool of a nonprofit would want that lightbulb to go on later when there would no doubt be some possibility of that partner feeling scammed and deciding it no longer trusts you completely? The Ethicist's mantra is "Good management promotes good ethics and good ethics promotes good management."

Dear Nonprofit Ethicist,

There are two very large nonprofits in the same city doing essentially the same work. The development director of organization A had a longtime relationship with one of A's major donors, and

submitted a proposal to him for a new project. The development director then left to become the CEO of organization B. The estate/foundation of that major donor has now funded that project at organization B. What's your reaction?

Conflicted

Dear Conflicted,

This is very tacky behavior and not likely to make for good organizational relationships but the Ethicist can see how it happened. First, the behavior may be unethical in that the development director produced product on organization A's time that is now accruing to the benefit of organization B. That is a form of theft if you want to look at it legalistically. But on the other hand, the Ethicist has to wonder how the project became so identified with the development director? This is why, in a lot of organizations, the development director is not the point person promoting a new program emphasis or special project, and it's why foundations very often do not want to talk to the development director about such stuff, preferring a meeting with the executive or designated program staff. In other words, foundations generally want to understand, see, and feel the institution's interest in the project and this is evidenced through the responsible representative. This is still a human interaction. That's why successful grant seekers take care to build relationships with foundation program officers. This leads to an unfortunate reality for organization A; now that the development officer is a CEO, the donor probably has more confidence that the job will be done than when the project resided at Organization A.

WOODS BOWMAN is an associate professor of public service management at DePaul University.

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