The Silent Partner Requests the Right to Speak

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Whether you are among those who believe that philanthropy is a strategy aimed at improving the social status of the donor, or, like me, you believe that charity is an expression of moral convictions that are worth emulating, it is hard to see how philanthropy has become an issue that embroils so much emotion. A well-known businessman, who gives a lot to charity, recently asked me, "Why is it that when people do business they are judged by the outcome and not the intent, but when they decide to give, they are judged by the intent and not the outcome."

The answer is complex and is rooted in the widespread market failure on the part of all those involved: the donors, the nonprofits, and the public. However, before we elaborate, we should consider a more basic question: Why do people donate in the first place? To make the world a better place? As an appreciative gesture to the community to reciprocate for their financial success? Or perhaps giving is about something less praiseworthy, like the desire to see our name loftily displayed on a building, or because we succumb to peer pressure, or just to make us feel good about ourselves? Or more bluntly, has philanthropy become a higher form of consumerism?

At the end of the '80s, economist James Andreoni claimed that people's chief motivation for giving is the "warm glow" effect. According to this concept, people do not give solely to "save the lives of children at risk", but also to enjoy the glory that is associated with the type of person who does. This concept achieved scientific basis in a study that showed that the more donors gave to the Church, the less they actually frequented them. Thus, it is not surprising that many donors - even those who contribute considerable sums – refrain from giving their time as well to the charity they support.

Evolutionary psychology, a relatively new field in psychology, which links our behavior to our evolutionary legacy, whose principle is mainly survival and reproduction, should be considered as well. One theory is that philanthropy indicates an economic ability that affects the status of the donor in the social "tribe" he is associated with. According to this theory, it also improves his status among the

opposite sex as a person of financial means and a reliable provider. A study showed that like the peacock who flaunts its feathers to impress the peahen, men become more generous even in the company of complete strangers if being observed by attractive women. Females, on the other hand, do not become more generous among attractive males.

Emotions are still a principal component in philanthropy. A comprehensive study carried out by the consulting firm HOPE found that only 15% of all donors are open to the possibility of donating to an organization they had not previously donated to (essentially blind loyalty towards the first organization), and only 3% place their trust in research data that is at their disposal. In addition, the study shows that donors can be classified into six categories: Repayers (those who donate to their alma mater, or a hospital that gave aid to them or their family); Casual Givers; High Impact (those seeking to promote social change); Faith Based; See the Difference (those who donate to organizations within their community); and Personal Ties (those who give as an obligation to people they know). It is easy to observe here that five out of the six categories represent donors who are motivated mainly by emotion. Only one category relates to the strategic donors who base their decisions on research (High Impact). One category that is missing is, of course, people of high net worth who refrain from donating altogether. Apparently, they have forgotten that they came into wealth due to the conditions afforded them by society (and mainly the right they have been given to work within the legal framework of a proprietary limited liability company that allows them to take risks without personal sacrifice if they fail but are allowed to enjoy personal gains of success), as well as a result of a great deal of luck not presented to most who were forced out into the margins of society and now need their help.

If a man from Mars were to venture into our world, he would be surprised to discover the circumstances under which many of the large social investors make their decisions to donate. Philanthropy bears some problematic characteristics: very low barriers to entry (no one is prevented from founding a family trust fund of only a few thousand shekels), low competition (no one would say, “Leave that organization to me – I’d like to be its sole donor.”), and no exit strategy (once you’ve become a significant donor to a certain organization, it is difficult to find another business model that will promise the organization independent sustainability, or to be replaced as a donor).

Missing here are the economic market powers that promise - in the realm of business - the discipline, focus and willingness to make difficult decisions by businessmen who are obliged to ensure their firm's survival and prosperity. These are not conditions that render effectiveness in any area of activity.

From the nonprofit's standpoint there is little more encouragement. Amidst the worrisome forfeit of basic principles of corporate governance, it is difficult today to find in the governing organs of most nonprofits representation for the beneficiaries (towards which the nonprofit aims its interest), for the investors, (who vehemently avoid involvement on the charity governance level) or for founders, who in many cases have long since disappeared. This unique situation develops into a sticky reality in which two thirds of the nonprofits are essentially controlled by their CEOs who at times also nominate their chairmen (!). As in the donor's case, this reality does not promote effectiveness, and represents the second side of the three-sided market failure.

The suspicious public, I'm sorry to say, represents the third side of the triangle. This suspicion arises, among other things, from a limited understanding of the field of philanthropy, which is no less complex than that of the business world, and in many cases, even more so. The public projects its criticism of the executive's income on the nonprofit sector in which the director's income is at best, one twentieth of that of the business executive's, while the latter serves the society much less significantly. The public also refrains from donating to a nonprofit organization whose overhead is high, without realizing that zero overhead is very costly. Like in business, an organization lacking a sound administrative infrastructure and reasonable supervision cannot be effective.

In the atmosphere of the three-sided market failure, emotions emerge at the expense of data and analysis. Envy, self-righteousness, and seeking respect take the place of necessary public discourse. Donors expect respect and appreciation due to their generosity; the public finds it difficult not to be envious or to become suspicious of the motives of someone who has the economic means that enable him to part with such substantial sums of money without sacrificing his standard of living. Some of the

nonprofits evade accepted effectiveness standards, based on the immunity they seek in light of the moral character of their work.

The time has come to correct this market failure in order to break the cycle of suspicion that threatens the third sector. A new social pact, reliant on existing bases – albeit hidden – is needed between the partners and the situation described.

More and more people of high net worth in Israel and around the world are seeking to make decisions about where their money goes while suiting their social preferences and not leave this decision up to the government. These people can also act innovatively by taking risks that governments cannot. Governments recognize this and offer tax benefits that encourage donors to assume these risks, but the latter expect additional recognition. They would like society to recognize their contribution and good intentions, in the broadest sense of the word. However, this recognition is slow in coming. The reason lies in their modus operandi: During a business activity, businessmen are obliged morally and legally to their stakeholders, but when it comes to charity, most private, social investors who invest their own money do not feel obliged towards any faction. The donors have not yet internalized the recognition that the tax benefits they receive, are indirectly making those who do not donate, be part of the philanthropic cycle. In effect, more than one third of the funds donated comes from taxpayers (in 2008 more than NIS250, 000,000 were accredited as tax returns to private donors), who finance the tax returns that the private donors enjoy. As such, the taxpayers take great interest in the goal of the donation, and moreover, in its effectiveness.

Our citizens, at least those who dutifully pay their taxes, have the full moral right to expect proper disclosure from donors regarding anything related to their philanthropic activity, and expect complete transparency and substantiation regarding the latter's social investment decisions. Another facet of the strong connection between donors and citizens comes from the increasing recognition that it would be impossible to solve a large portion of the social problems without the active support and involvement of the entire public.

Whether giving is a new form of consumerism, intended to establish the status of donors, pure altruism or a moral choice for those who feel responsible for the possible consequences of the socio-economic gap, the time has come to operate in the general realm of philanthropy in an atmosphere of mutual appreciation among all factors, all having rights. The time has come to draw up a new social pact between donors, nonprofits, and society. Donors and nonprofits must commit to more transparency and effectiveness regarding their contributions and their usage, and on the other hand, society must submit not to suspect donors' motives, or the integrity of charities. The days of discreet contributions are over. The public has the right to transparency and effectiveness regarding the utilization of donations from those who expect their appreciation and who turn the public into partners in their philanthropic activity and regardung its impact. The silent partner requests the right to speak.