



# Matters of Principal: Ethical Fundraising and Investing

by Dianne Molvig

Not-for-profit providers are obliged to practice ethical stewardship of resources while protecting their missions and underlying values. Here is a look at the issues involved in ethical fundraising and investing for provider organizations:

- The need for honesty and transparency in donor-centered fundraising
- Protecting the interests of potentially vulnerable donors, such as elderly residents
- Keeping fundraising efforts consistent with organizational goals and values
- Keeping close oversight over investment decisions
- Avoiding conflicts of interest
- Practicing socially responsible investing

**M**oney and ethical dilemmas often go hand-in-hand. Not-for-profit aging services providers are not immune to ethical quandaries in their fundraising and investment efforts. Consider these scenarios:

- A resident contributes \$50,000 to renovate the activities room in your assisted living community. After paying for the project, you have \$5,000 left. Do you: (a) Ask the donor what she wants to do with the remaining \$5,000? (b) Assume you're free to apply the leftover money to other needs, as you see fit?
- A donor mails a check, dated Dec. 31, 2007, in an envelope postmarked Jan. 15, 2008. The donor asks you to count the contribution for the previous year so he can take a deduction on his 2007 income taxes. Do you: (a) Say "no problem" and deposit the check? (b) Tell the donor that due to IRS rules, you can't accept the check as a 2007 contribution—even if that means you risk losing the donation?
- At a board meeting, one of your directors questions why your organization's investment portfolio includes stock in a company that manufactures products proven to harm public health. Is this a concern your organization ought to consider in deciding where to invest?

The answers to the above are: A, B and maybe. These and many other questions are springing up more often these days as government funding for aging services is shrinking. At the same time, residents can afford to pay only so much, which limits how much providers can increase their fees. In this climate, organizations increas-

ingly look to fundraising and investing as ways to bring in needed dollars and make their assets grow. How can your organization keep its fundraising and investing on an ethical track?

### **The Golden Rule of Fundraising**

Fundraising takes vastly different forms among aging services providers. Some may have a full-time development officer, even an entire department, devoted to raising money. By contrast, small organizations may do only passive fundraising, such as receiving an occasional memorial gift.

Across that broad spectrum, "There are common threads of ethics," says Tom Hofmann, president of the Ohio Presbyterian Retirement Services Foundation in Columbus and former chair of the AAHSA Philanthropy Network Steering Committee. "We as organizations seeking philanthropic support need to be faithful to the donor. I don't care if all you get in a year is an estate gift or if you're raising millions of dollars, you have to make sure you carry out what the donor wanted."

With that donor-centered approach, ethical fundraising translates into a facilitative process, Hofmann says: "It's not about extracting money from people, it's about partnering with them to see that their gifts do what they want them to do."

Agreeing with this perspective is Mary Wesley, vice president of development and public relations at United Church Homes and Services (UCHS), Newton, N.C., and chair of the AAHSA Philanthropy Network Steering Committee. Ethical fundraising adheres to "a do-unto-others philosophy," she says. "If this were your mom donating the money, how would you handle it? There has to be a lot of openness and transparency in making information available to donors."

Wesley notes that her organization's primary donors are residents of UCHS facilities and others closely connected to the organization. Fundraising with the elderly requires extra care, she contends, as they can be vulnerable in financial matters. Wesley describes her fundraising work as "more of an educational process than a solicitation process."

UCHS resident-donors live in any of several facilities, so honoring donors' wishes requires a solid tracking system. "If your mom lives in a certain community," Wesley explains, "and she wants a gift to go to a special project in her community, we have to make sure that happens. That means getting your back office in order" to track all donations diligently.

Not only does ethical fundraising require being true to donors' intentions, but also to your organization's mission and values, points out Audrey Weiner, president and CEO of Jewish Home and Hospital Lifecare Systems, New York, N.Y., and chair of AAHSA's Commission on Ethics in Aging Services.

One underlying risk is setting fundraising priorities based solely on the economic means of your donors, Weiner says. That can lead to opportunistic fundraising, in which an organization chases the money and then does whatever that money prescribes. It's easy to lose sight of your organization's mission and values along the way.

To avoid that, Weiner emphasizes that, right from the start, an organization's decision makers must discuss and come to agreement about the purposes driving their fundraising. "What's important is having the conversation," she says, "and making sure that decisions about fundraising priorities are given the same weight and time as budgeting decisions."

## Of Pitfalls and Policies

In the end, ethical fundraising comes down to following an overarching guideline, says Barbara Levy, a Tucson, Arizona-based fundraising consultant and member of the International Ethics Committee of the Association of Fundraising Professionals, Arlington, Va. “If you’re vigilant about the welfare of the donor and the organization,” Levy says, “then you probably can’t go wrong.” (For more on donor rights and fundraising ethics codes, visit [www.afpnet.org](http://www.afpnet.org).)

Keeping that general guideline in mind can be useful when striving to avoid the pitfalls inherent to fundraising, Levy suggests. One of these is failure to make sure donors fully understand what their contribution is funding. “Sometimes the donor makes a gift,” Levy notes, “and then later is shocked to see how the money was used.” Openness and clear communication are vital to avoid such problems, especially when working with elderly donors, Levy adds.

She’s also aware of situations in which an elderly donor approaches a not-for-profit organization to announce plans to buy an annuity. The donor is excited about the prospect of outstanding returns from the annuity—based on stories he or she heard from a friend, relative or salesperson—and wants to name your organization as a beneficiary. What should you do?

“The sticky wicket when fundraising with seniors,” Levy explains, “is to know when it’s critical to bring a professional advisor into the picture. Donors get carried away sometimes. But the fundraiser is not in a position to be able to offer a professional opinion” about the donor’s investment choices. In such situations, it’s best to suggest that the donor consult his or her professional financial advisor, Levy says, before engaging in any further discussion about being named as a beneficiary.

Hofmann points to another example of a trap that can arise in fundraising. Say you have two projects for which you want to raise funds, and you figure that one is more “sellable” to donors than the other. “You might be tempted to oversell the sellable project,” Hofmann says, “to get money for the unsellable one.” That’s just

as unethical, he stresses, as using leftover donated funds without first consulting the donor.

Being forthcoming about costs is another hallmark of ethical fundraising, Hofmann adds. Raising money costs money. But the temptation is always there to fudge the cost figures to appear more efficient. “That’s a slippery slope,” Hofmann says. “Lower expenses make it look like you’re doing a better job. That can be totally misleading.”

All in all, ethical fundraising blends ethics codes, laws and basic human honesty. The final piece is a written fundraising policy, updated regularly and board-approved. It could address what kinds of gifts your agency will accept, how you’ll handle restricted and unrestricted gifts, what you’ll do with donations from vendors to assure no conflict of interest, and many other issues.

A written policy protects against inadvertently getting into situations that could make your organization vulnerable. Says Hofmann, “A policy is not your limiter, it’s your protector.”

## Growing Your Money Ethically

Here we shift to the other end of the spectrum of money issues. Your organization has accumulated funds as a reserve or an endowment and intends to invest to earn more—and do so ethically.

The scale of investing varies enormously among aging services agencies. A large organization may have a multimillion-dollar investment portfolio and retain an outside advisor to manage it. At the other extreme, a small provider may hold only a couple of certificates of deposit at a local bank. Whatever your situation, how do you keep your investments ethical?

For starters, you ought to steer away from conflicts between your organization’s best interests and the interests of an outside investment advisor, if you use one. “The incentives can be all wrong,” points out Marc Williams, a senior consultant at Highland Consulting Associates, Cleveland, Ohio, who works with many not-for-profit organizations. To avoid this conflict, work with an advisor who only receives a fee from you for services rendered, and not a commission from someone else for selling investment products.



A second key element in ethical investing, Williams says, is to have a board or investment committee that stays close to the investment process. That doesn't mean these people select the investments; an advisor may carry out that function. But they must review, understand and approve the investments—and ask the right questions. In short, they take on a stewardship role.

“That leads to much better results,” Williams says. “This group has to include committed people who stay engaged in the process. They don't go along to get along and allow whoever is advising them to have free rein.”

Another potential trouble spot in investing is having conflicts of interest on your board, says Bill Courson, who works with many not-for-profits as president of the

Lancaster Pollard Investment Advisory Group, Columbus, Ohio. No board member, of course, should gain personally from your organization's investments. But sometimes conflicts that no one ever intended creep in.

Take, for instance, a community leader who has volunteered on your board for years, bringing credibility and useful expertise to your organization. Suppose that board member also is the president of a local bank where your organization has some investment accounts. Perhaps neither your organization nor the board member has ever felt there's a conflict of interest. But from an outside viewpoint, the perception of a conflict may exist.

“There's a symbiotic relationship between your not-for-profit and other organizations in your community,”

Courson says. “That relationship builds naturally, and the conflict also builds naturally. Therein lies the dilemma.”

### What Is “Socially Responsible”?

An investment policy can address potential conflicts of interest and other questions related to ethics. For example: What types of investments will your organization buy? What level of risk is appropriate? What is your targeted return? What are the responsibilities of your board, investment committee and outside advisor?

“Your policy provides an institutional memory of past decisions,” Courson says, rather than relying on board members' recollections. Say, for instance, that an investment decision leads to losses down the line. But when making the decision, the board followed all the proper proce-

## Prosperity, Generosity and the Dignity of Aging

Claire Gaudiani, in her book, *The Greater Good: How Philanthropy Drives the American Economy and Can Save Capitalism*, explains the enormous but often underappreciated role philanthropy has played in building American prosperity. She believes that only by continually nurturing a culture of generosity can Americans maintain and build the wealth made possible by capitalism while creating a healthier, more just society.

Gaudiani, who teaches at The George H. Heyman, Jr. Center for Philanthropy and Fundraising at New York University, will be a keynote speaker at the AAHSA Annual Meeting & Exposition in Orlando, Fla., in October. Her Web site is [www.clairegaudiani.com](http://www.clairegaudiani.com).

*FutureAge* talked with her about philanthropy and the future of aging services.

**FutureAge:** How has philanthropy fit into the history of care for the aged?

**Claire Gaudiani:** From earliest times in America the care of the elderly happened from the generosity of family and of religious men and women. The wealthy could afford caregivers in their home and the elderly poor were remanded to poorhouses. In 19th-century America, women's groups raised funds to support the elderly, but given infectious disease, and very hard lives, only a small proportion of [the] population reached old age. Support for the elderly needs to be seen as a gift of modern times, modern pharmacology, modern public health, modern work life. The religious men and women who cared for the aged for centuries did so in the belief that God resided in the aged and caregivers could show their physical tenderness to their God. Today, in often less spiritually rich circumstances, we can offer people the chance to care for the elderly through their

philanthropy because they are grateful for the long life that modern times permits us.

**FA:** Aging-services providers do not serve only needy seniors; they also serve affluent people. Is it appropriate for those providers to encourage philanthropy from the seniors they serve?

**CG:** It is very appropriate for not-for-profits to encourage philanthropy from affluent seniors. Often, fundraisers tell the “need story” [as a way to encourage people to give], but the “gratitude story” can be even more effective. How wonderful is it for your family to know that in your own old age you're still caring for others? Gratitude is a very important stimulus for generosity. Affluent seniors can be helped to show grandchildren how and why they are sharing their wealth with those less fortunate. Affluent seniors can still be powerful teachers of values if we help them to be.

We need to dramatize how elderly people can go on teaching more powerfully than professors, through their generosity. Often, older people feel they don't have power any more, but they do, in their ability to be generous.

**FA:** What are the most common misunderstandings about philanthropy and its potential?

**CG:** There are three areas of confusion. First, wealthy people often [think] there is more waste in the expenditure of philanthropic dollars than there really is. They often don't realize how scrupulous not-for-profits are in the way they spend resources. If there is an assumption that not-for-profits are not thrifty and economical, there can be a misunderstanding of the power of philanthropy.



dures laid out in the investment policy. In this case, the policy provides a defense against accusations of wrongdoing, Courson points out.


“That’s why it’s important to have the policy written down,” he says, “and updated ... A number of not-for-profits have an investment policy, but they see it as written in stone. I’ve looked at policies that were decades old. But markets change, industries change, management protocols change. So your policy must be reviewed to remain relevant.”

Some providers cover yet another issue in their investment policies: whether to pursue socially responsible investing. This investment strategy goes beyond the basic ethical standard of acting as stewards of an organization’s financial resources. “The question emerges,” says Weiner, “as to whether the ethical principles of justice and our responsibility around social accountability also should come into play.”

Williams frequently encounters that question when working with not-for-profits. An organization may, for instance,

want to refrain from buying stock in a company that manufactures cigarettes or releases known carcinogens into public waterways. Socially responsible investing has worthy objectives, Williams says. “But the investor has to appreciate that you can’t do this in a vacuum,” he adds. “The reality is that there is potential to negatively impact your return” when limiting your investment options.

Adding more complexity is the fact that many different mandates exist in the realm of socially responsible investing. What looks socially responsible to one person—say one of your board members—may not fit that definition in another’s eyes.

Still, aging-services providers must grapple with the decision, Weiner contends. “Are you going to use your investing power for social conscience?” she asks. “I don’t think it’s the AAHSA Ethics Committee’s task to answer that question. But it is our task to help not-for-profits ask the question.” 

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## Resources

### Ohio Presbyterian Retirement Services Foundation, Columbus, Ohio

Contact: Tom Hofmann, president, [tomh@corp.oprs.org](mailto:tomh@corp.oprs.org) or (614) 888-7800.

### United Church Homes and Services (UCHS), Newton, N.C.

Mary Wesley, vice president of development and public relations, [mwesley@uchas.org](mailto:mwesley@uchas.org) or (828) 464-8264.

### Jewish Home and Hospital Lifecare Systems, New York, N.Y.

Audrey Weiner, president and CEO (and chair of the AAHSA Commission on Ethics in Aging Services), [aweiner@jha.org](mailto:aweiner@jha.org) or (212) 870-4600.

### AAHSA Philanthropy Network

The AAHSA Philanthropy Network is one of a group of online communities at [www.aahsa.org](http://www.aahsa.org). Visit <http://aahsa.communityzero.com> or [www.aahsa.org/online\\_communities/listservs.asp](http://www.aahsa.org/online_communities/listservs.asp).

### Association of Fundraising Professionals, Arlington, Va.

[www.afpnet.org](http://www.afpnet.org).

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Second, the value of the philanthropic dollar is misunderstood. People don’t focus on how little it takes to make a big difference in someone’s life.

The third most prevalent confusion is the difference between charity and philanthropy. Charity is generosity to meet an immediate and dire need; philanthropy has the privilege of a longer view. A philanthropic gift for an elderly person isn’t a sandwich to keep him alive until dinner; that is charity. Philanthropy provides meals and a clean and comfortable place to live, see relatives with dignity, and sustain memories in a moral framework of dignity.

**FA:** Some people say that not-for-profit human-services providers should be discriminating about the sources of funds they accept—for instance, not accepting money from donors who made their fortunes in tobacco. What is your take on that?

**CG:** I think accepting money made from legal even though now recognized as harmful products is perfectly acceptable. I take issue if the *naming* of something like a Virginia Slims Tennis Tournament gives publicity to an organization whose products are harmful. For families whose money was derived from something now understood to be dangerous and ill-advised, perhaps they could gift in areas where they could repair damage done in relation to that activity.

On the other hand, the *motivations* of donors don’t interest me. I don’t mind if someone’s intention [in giving] is gaining publicity. The

impact of the gift is what’s most important.

**FA:** Aging-services providers are very concerned about the future, as they face a huge wave of aging people in an environment of declining resources and an insufficient workforce. How can philanthropy help solve these problems?

**CG:** We have to be invested in each other, in a set of values that comes back to the notion of “we, the people.” Living with dignity is an extraordinarily important element. The needy elderly provide society with an extraordinary opportunity to witness the value of life itself, not just a life that can play a violin or perform other public activity, but to show the dignity of that life in itself. The way we treat the least of our brothers is the purest mark of our own level of democratic humanity.

One thing I’ve devoted my life to is marching around the country and telling stories about the good works going on. People need to know they are not alone in their generosity. They prize seeing great examples of the philanthropic work that is going on.

I wish your organizations could make more of a public case for that. There is a huge amount of goodness going on, in all areas, but [groups are] speaking intensely to themselves. Nobody knows about it, so we need a set of people who will put that out there.

Philanthropy is contagious, and people want to do what other people they admire are doing. If they see people being generous, they’ll be more generous. We have an obligation not only to do good things, but to let doing good things be a song that’s heard more widely. 