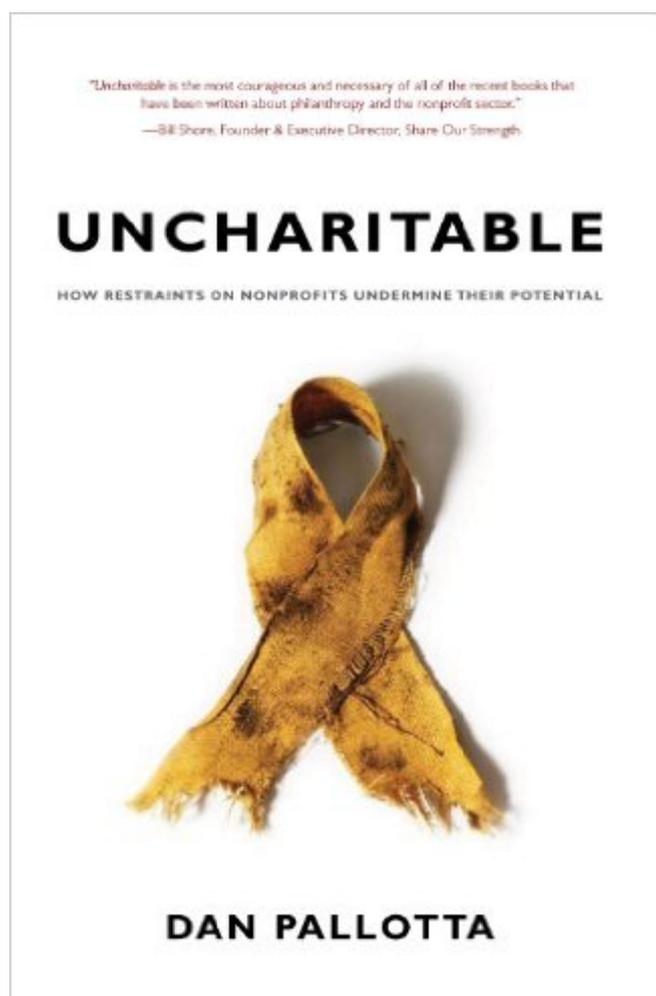


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# Uncharitable: How Restraints On Nonprofits Undermine Their Potential (Civil Society: Historical And Contemporary Perspectives)



## Synopsis

Uncharitable goes where no other book on the nonprofit sector has dared to tread. Where other texts suggest ways to optimize performance inside the existing paradigm, Uncharitable suggests that the paradigm itself is the problem and calls into question our fundamental canons about charity. Author Dan Pallotta argues that society's nonprofit ethic acts as a strict regulatory mechanism on the natural economic law. It creates an economic apartheid that denies the nonprofit sector critical tools and permissions that the for-profit sector is allowed to use without restraint (e.g., no risk-reward incentives, no profit, counterproductive limits on compensation, and moral objections to the use of donated dollars for anything other than program expenditures). These double-standards place the nonprofit sector at extreme disadvantage to the for-profit sector on every level. While the for-profit sector is permitted to use all the tools of capitalism to advance the sale of consumer goods, the nonprofit sector is prohibited from using any of them to fight hunger or disease. Capitalism is blamed for creating the inequities in our society, but charity is prohibited from using the tools of capitalism to rectify them. Ironically, this is all done in the name of charity, but it is a charity whose principal benefit flows to the for-profit sector and one that denies the nonprofit sector the tools and incentives that have built virtually everything of value in society. The very ethic we have cherished as the hallmark of our compassion is in fact what undermines it. This irrational system, Pallotta explains, has its roots in 400-year-old Puritan ethics that banished self-interest from the realm of charity. The ideology is policed today by watchdog agencies and the use of "efficiency" measures, which Pallotta argues are flawed, unjust, and should be abandoned. By declaring our independence from these obsolete ideas, Pallotta theorizes, we can dramatically accelerate progress on the most urgent social issues of our time. Pallotta has written an important, provocative, timely, and accessible book—a manifesto about equal economic rights for charity. Its greatest contribution may be to awaken society to the fact that they were so unequal in the first place.

## Book Information

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## Customer Reviews

The true value in this book lays not so much in the answers it provides, but in the questions it asks. Why are we disturbed by the pay charity CEOs receive, but not disturbed by the pay that for-profit CEOs receive? Why do we insist that charities "rough it" rather than spend a little more on infrastructure and investments on increased efficiency? That being said, the book's argument is weakened by two poorly-made points early in the book that affect the strength of his later arguments. Perhaps the number one shortcoming in this book is the order in which his arguments are presented. By starting off with the argument that nonprofit CEOs do not make enough money (only up to a measly \$400,000 or so a year!), the author loses some credibility from the very beginning. At one point, the author argues that CEOs have diminished abilities from their pay being so much lower than CEOs of for-profit firms, due to the fact that they cannot afford to join the same country clubs, yachting clubs, attend the same \$50,000 a seat galas, etc., as their for-profit competitors. By not being able to run in the same obscenely wealthy social circles, they're not able to lobby for the same kinds of funds they could if they were accepted into that crowd. That's a tough sell. The author repeatedly mentions his Ivy League education and the fact that he could have made dozens of millions of dollars a year in the private sector instead of martyring himself to the nonprofit cause for only about half a million dollars a year. It makes the argument sound a little whiny with an edge of bitterness, and may seem very distasteful to anyone who identifies as lower or middle class. Interspersed throughout this argument are claims that the capitalist system is faultless and should be unrestrained for maximum benefit. In the wake of the Great Recession, it makes the argument sound weak. The several Ayn Rand quotes peppered throughout ensure that he has irritated everyone left of center by the first few pages of chapter two. The second weak point is his oversimplification of the history of nonprofits and charity in the United States. He overemphasizes the stern values of the Puritans and completely disregards the enormous impact of Catholicism, Judaism, and other non-Puritan forms of Protestantism - not to mention the history of non-religious charity and nonprofit work revolving around different immigrant groups or people with shared values.

He also completely disregards the often scandalous nature of nonprofits in pre-WWII America, and how they were at one point generally believed to be a hiding place for wealth. In doing so, he completely ignores the reasons why nonprofits were ever regulated. His omission of other, less self-punishing religious traditions also ignores the "love thy neighbor" theme that led to the lower pay and lower resource use common in charity. These two rather large mistakes are regrettable, as the rest of his argument is rather sound. Nonprofits should be able to allot more money to advertising, if they feel it would bring in much-needed resources. Nonprofits should be able to take risks and invest in their infrastructure, considering they are competing for the same disposable consumer income as big brands like Apple or Sony. Perhaps most importantly, skewed watchdog group standards deemphasize the effectiveness of charities in favor of an oversimplified "overhead" percentage that false, underregulated reporting could wildly distort. He provides good evidence for this incorrect data reporting, citing the wildly varying "overhead" reports from similar charities over the same years. His argument could be furthered (ironically, considering his disdain for regulation and oversight) by advocating for the implementation of some sort of federal oversight for compiling reliable data on the work of charity agencies and streamlining what kinds of figures they report. However, as useful as these suggestions by the author are, many readers may have given up on the book after his first two mangled points.

I must begin by complementing Dan, because his book caused me to review my assumptions about the nonprofit sector. In addition, I was very engaged by the book in that, if you were in a room nearby while I was reading it, you could hear me shouting frequently! Therefore, it was at least a stimulating read for me. At the same time, I don't recommend the book generally because I don't think it is a good book (1) for the general public to read, (2) for those who you are new to or thinking about joining the sector or (3) for Board Members with limited experience. If you haven't been inside the nonprofit sector for a good while and seen all of its beauty and also its ugliness, you might get swept up in what are the book's many false and misleading arguments. Which leads to the other side of the coin, one of the main themes in the book - over and over again was Dan's tendency to use extreme arguments and examples that are completely inaccurate characterizations of the state of affairs in the sector (hence my frequent yelling at the book). In other words, he repeatedly sets up a phony straw man and then knocks it down. All the while I am thinking BUT THAT MAN DOESN'T EXIST (!) or so rarely that the opinions stated as facts can totally mislead an otherwise uninformed reader!!! This becomes particularly important as we see the growing interest in people desiring to transition from the for profit sector into the nonprofit sector. God help us if this is a book they base

their career decisions on. Another theme in the book is Dan's idealization of capitalism almost as a God that can lead to self fulfillment and "stunning change" through the wonderful motive of personal gain. He counters this with the sad nonprofit sector that is restrained by the evil of traditional religion (which he claims mostly "obscures the bigger picture") as well as a laundry list of nonprofit beliefs based on false ideology. This leads us all the way up to the present with sexism, homophobia and other horrors rounding out his bleak view of the state of things. At the same time, he presents a somewhat Pollyanna view of the nonprofits in the sector implying that we have a few bad apples but not too much to worry about on the ethical front. Well, based on my 30 years of experience working in nonprofits, as well as the reports we get at Charity Navigator almost daily from donors and investigators around the country, it is quite clear to us that we have more than a few scoundrels and thieves to worry about. Although I do not believe it is the majority of nonprofits that fit this picture, it is a substantial number. Therefore we need to be very cognizant of this fact in developing solutions to improve the sector's performance. Furthermore, my readings on the history of the nonprofit sector reflect a very different set of facts and conclusions about its origins than Dan's. Whereas he seems obsessed with the Puritans as our historical fore bearers, there are many civilizations and belief systems we can point to as having an influence, including those of the Egyptians, the Romans, the Jews, the Muslims as well as Christians. All of them shared the view that helping others is a most noble, honorable and important part of life and a key part of the path to being a good, decent, happy person! Additionally, in looking at the history of our country I think it is clear that our founders worried that unrestrained capitalism, could lead to the concentration of wealth and power along with tremendous ethical abuses. Many of their worries have been realized during our history and seem to be accelerating in some of what we see today. That is why many of them worried whether, given our natural human tendencies, we could handle the liberty of the revolutionary republic they fought and died for. Many historians and political scientists also point to the checks and balances in our founding documents and our reliance on the rule of law as being just as critical to our country's success as the value of capitalism as an economic engine. In summary, I am a believer in capitalism just like Dan is, but in his case capitalism seems to be his panacea to deal with all the imperfections of the nonprofit sector as well as the human condition in general! Ironically, most experts note that a key factor in the unique development of our nonprofit sector is the related American belief in the power of the individual and voluntary associations to solve problems. At least up until recently, most Americans have not wanted a more centralized, powerful governmental apparatus, but the creative, innovative, dynamism and heart of millions of independent nonprofits operated by 10% of the American workforce, along with over 60 million volunteers. It is a

distinguishing feature of our country. As a result, the size and diversity of the nonprofit sector in the United States is historically unique and vital to our political, economic and social systems. Scholars further note, that the nonprofit sector is a critical vehicle to balance out or mitigate the imperfections and potential heartlessness of unrestrained capitalism. I share this as a more historically evidence based view of the imperfect but also noble and vitally important nonprofit sector that Dan calls the poor stepsister of his titans of industry. In addition, there is one area where Dan and I have already publicly crossed swords a couple of times (here, here and here). That is on the question of nonprofit executive compensation. Dan says we need to pay our nonprofit CEOs the same as for profits. Let them become millionaires if they perform well. That way we can get some of those of the best and brightest MBA's to come into our sector that normally go to Wall Street or Silicon Valley. In fact he says, until we do, the most talented among us in the sector will leave. So I guess that makes me a real dummy with my MBA from Rutgers for having stuck around for 30 something years, as well as the many amazing and yes, brilliant nonprofit workers I have met along the way. The vast majority of experts hold the view that best practice is to set nonprofit executive compensation based upon local market conditions (geography, cause area and budget size of comparable nonprofit leaders). Our data at Charity Navigator indicates that with such an analysis, the typical nonprofit CEO of a mid-to large sized organization makes a good six figure income and is already in the top 6% of wage earners in the US. So, you can live a very comfortable middle to upper middle class life style as the leader of one of these charities. But Dan seems to think we need to get into that upper class of the top 1% before we can really get the best and the brightest. As my colleague Dr. Penna and I have argued before, we find Dan's argument on compensation not just wrong headed but downright insulting. Just as he makes a fetish out of unrestrained capitalism, he makes a fetish out of cash over other means of securing happiness and satisfaction at work. How insulting to think that, if we make less pay than our for profit counterparts, we must be less creative, talented, intelligent and less capable of helping others. Give me a break! In fact, the research I read consistently indicates that job satisfaction comes more from the purpose or mission of what you do - a sense you are doing something that is meaningful - rather than cash. The primary challenge in our opinion is not a lack of high priced nonprofit leaders, but rather fragmentation and inefficiency in the use of existing resources. This is caused in part by an incentivized focus on manipulative marketing and storytelling, over performance and results. In other words, we waste a tremendous amount of money in the sector each year on untested, unproven and often ineffective services, to say nothing of the scoundrels and thieves. Fixing those problems at this stage is FAR more important than throwing more money into leadership salaries. And yes, we believe you can do one without the

other Dan. I also don't agree with Dan's other primary solution for getting us to focus on results. He suggests that we require a fee of up to 1% be charged on all donations into the sector. Dan wants to take that three billion or so that he charges private contributors to create some sort of government or quasi-governmental behemoth to provide results based evaluations of charity performance. What a bureaucratic and hyper-regulatory solution! Then we can watch runaway for profit consultants take that three billion and create a whole new boondoggle! I leave you with a quick glimpse of part of the dream that some of us hold, as to what the future might look like in ten or twenty years, to get us to our mutual goal of driving more money to high performing nonprofits. I hope that through the efforts of CN and others, in the not too distant future, every charity will have two audits each year - the traditional financial audit AND a results audit. This is a more grass roots, American solution that is decentralized in implementation and yes paid for by the charities themselves because they BELIEVE that results evidence is critical to performing their missions. They can also be motivated by enlightened self interest in knowing that the audit will ultimately pay for itself as more and more funders and donors will gravitate to evidence-based, high performing nonprofits. So, as we move away from financial measures as the sole or primary dimension by which we and the public evaluates the performance of nonprofits, let all of us work together to get more and more charities to become passionate about performance management and measuring outcomes. Let us all aspire to getting everyone who does this noble work to do it for the right reasons. Let us all come to realize how critical it is to the sectors future to manage and measure what matters most - whether or not we are providing meaningful and sustainable change in the people and communities we all care about. Once we achieve THAT, we can move away from being Uncharitable.

This is just an opinion book, and many of his opinions don't make sense. For most, it is clear that corporate CEOs currently get paid too much. It is irrational to think nonprofit leaders should have the same pay structure. People work for nonprofits for many reasons; one is for intrinsic reward. I really don't want to donate to the salaries of the greedy; I want to donate to the needy. He makes some good points, but for the most part, the book is not useful.

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