Top 10 Fundraising Risks for Nonprofits

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The words “fundraising” and “risk management” are rarely used in the same sentence. One reason the topic of “fundraising risk” is infrequently discussed by nonprofit decision-makers may be because responsibility for “fundraising” is often assigned to the development team, while “risk management” is led by the finance department or client services team.

Yet there are risks associated with fundraising that deserve the attention of leaders of any organization relying on donated dollars for mission fulfillment. Read on to learn about the “top ten” fundraising risks facing mission-focused organizations and strategies for unearthing and managing the risks in your nonprofit.

#10 – Ignoring Donor Wishes

When your nonprofit receives a generous donation, it may feel like your “wish” has been granted. But has the donor’s wish been considered with respect to the use of those funds? Care must be taken to understand and adhere to a donor’s request regarding any restricted funding. Many nonprofits have found out the hard way that ignoring a donor’s specific requests for the use of a gift puts the organization at risk of not only donor wrath but also litigation. Nonprofit leaders are wise to manage this risk by taking a close look at instructions or requests that accompany a donation.

Questions to ask include:

- Is the donor’s request for the use of her donation reasonable given our plans and resources?
- Are we in position to fully comply with the request?
- How will we demonstrate to the donor that the conditions of the gift have been met?
- Who in the organization is responsible for tracking the use of the gift and notifying the donor?

#9 – Failing to Comply with Charitable Registration Laws

Thirty-nine states and the District of Columbia require charities, unless exempt or excluded, to register before asking residents of their jurisdictions for contributions. The requirement applies not only to the home state of the charity, but also to any other such jurisdiction in which the charity is seeking contributions. To learn more about this risk and how to manage it, see the article on “Charitable Registration” appearing on page 5 of this issue of Risk Management Essentials.

#8 – Crossing the Urgent/Desperate Line in the Sand

Several years ago I received a fundraising letter from a local arts organization pleading with me to “send money.” A close friend of mine was a volunteer for the organization and I had previously donated to the group. The introduction to the appeal explained that the nonprofit had fallen on hard times, and I was initially sympathetic. Unfortunately, the appeal “crossed the line” when its author explained the real motivation for the request. She wrote: “Please send a donation now so that I will be able to keep my job!” Conveying the urgent need for dollars to support your cause may be effective. Appearing desperate will only alienate past and prospective donors. Avoid the temptation to interject desperation into your appeals.

#7 – Mistaken Identity

Over the years I’ve received several calls from leaders facing a barrage of inquiries in the wake of a scandal involving a similarly named nonprofit. In what must feel like the ultimate “bum deal,” every nonprofit is at risk of donors assuming that the tarnished reputation of a similarly named charity could negatively impact your good reputation. To manage this risk, consider drafting a statement about your nonprofit that can be finalized and published should you ever face a case of mistaken identity. The statement might begin with: “The Board of ABC nonprofit was disheartened to learn of the difficulty facing XYZ nonprofit, also in New Town, USA. Despite similarities in the names of the two organizations, they are unrelated. ABC nonprofit was founded by Ethical Edna in 1950. The mission of ABC nonprofit is to… We welcome the public’s support as well as questions about our structure, leadership, services, and funding. Please contact Chris Communications at ….”

#6 – Lack of Clarity

Many fundraising campaigns involve two or more partner organizations. Raising money “together” can be an effective strategy as long as all of the parties participating in the campaign take time to clarify their respective roles and responsibilities. A “memorandum of understanding” is a useful tool for clarifying not only who does what but who will benefit in which ways after the campaign. Possible topics to include in such a document include:

- Effective date
- Limitations and responsibilities
- Project timeline and key due dates
- Accounting of expenses and receipts
- Ethical standards
- Cancellation

#5 – Unintentional Donor Disrespect

While few nonprofit leaders would knowingly disrespect a donor, a donor may feel disrespected by your practices and tactics. For example, if you call prospective donors early in the morning, late at night, during the dinner hour or repeatedly, you run the risk of inadvertently disrespecting your donor. To manage the risk of donor disrespect, visit the Association of Fundraising Professionals website and read AFP’s “Donor Bill of Rights.” The stated purpose of the document is: “To ensure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the nonprofit organizations and causes they are asked to support.”

#4 – Lack of Transparency

Today’s donors are savvy, connected and curious. At a minimum, they want to know:

- Who leads your nonprofit;
- How contributed funds are spent; and
- What impact the nonprofit is having in the areas where it works and serves.

Transparency and compliance are two different concepts. Meeting minimum requirements imposed by federal and state regulatory agencies is compliance. Transparency is a choice that leaders of a nonprofit make. To manage the risk that donors will believe you are hiding rather than sharing, ask your donors what they would like to know about your organization and make that information readily available.

#3 – Sweeping Mistakes under the Rug

The ability to ask others to donate to a cause requires a sunny outlook on an organization’s ability to make a difference. That sunny outlook—a common quality among professional and volunteer fundraisers—can sometimes cause dedicated leaders to look the other way when mistakes are made or treat these issues as “one off” complaints. Research on mistakes in organizational life by Harvard Business School professor Amy C. Edmondson suggests that many leaders treat mistakes too simplistically, and fail to take the time to understand “what” went wrong and “why.” When a supporter calls to tell you they received a solicitation in error, an inaccurate receipt for their contribution, or to complain about the tone or mixed messages in your campaign, vow to figure out what happened and why. Take the time to research the issue in question, gather a diverse group to review the matter, and identify practical steps to avoid a similar misstep in the future. Close the loop with the person who identified the mistake and express thanks for bringing the matter to light. Mistakes that are ignored or swept under the rug are downside risks waiting to happen… again.

#2 – Isolating Fundraising Responsibility (or Keeping Colleagues in the Dark)

Fundraising in a nonprofit is the responsibility of the fundraising staff, right? Yes… and no. While expertise making the “ask” may be found in a nonprofit’s development department, it’s vital that others at the organization are aware of the fundraising strategies and campaigns the nonprofit undertakes. For example, a positive response to an innovative online fundraising strategy could strain the nonprofit’s IT resources. Unless the IT department is aware of the campaign in advance, they may be powerless to prevent the crippling of IT infrastructure when thousands of donors log on to learn more or donate.

#1 – Missing the Mark

The most familiar fundraising risk in the nonprofit sector is falling shy of the target for fundraising results. Causes include:

- Unrealistic expectations;
- Taking long-term donors for granted; and
- Failing to make a compelling case.

The consequences of missing the mark range from the need to cancel or trim planned programs or services to the need to undertake a follow-on campaign to close the deficit. Risk management strategies to avoid this outcome include:

- Tapping diverse points of view in the planning process — If everyone at the table is convinced the campaign “can’t fail,” you probably don’t have the diverse perspectives needed to ensure success.
- Reaching out to prospective donors before you begin — Capital campaigns often begin after a certain percentage of funding needed has already been raised. This technique can be applied to other fundraising efforts as well. Consider reaching out to a small pool of prospective donors as the campaign is taking shape, to test the waters of the approach you are considering.

The word fundraising generally has a positive connotation in a nonprofit. The team responsible for development efforts is often comprised of optimists who are hopeful about their ability to persuade others to support the compelling mission of the organization. Yet risk is a fact of all facets of nonprofit life, including fundraising. By taking a closer look at common fundraising risks and your own approach to fundraising, you will be in a stronger position to anticipate and survive the inevitable uncertainty that is a backdrop for your fundraising efforts.

Melanie Lockwood Herman is the Executive Director of the Nonprofit Risk Management Center. Melanie welcomes your questions about any of the topics in this article. She can be reached at Melanie@nonprofitrisk.org or (703) 777-3504.