Donor Stewardship: The Risky Business of Gratitude



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Resource Type: Articles

Topic: General

Donor stewardship is more than sending a thank-you note or posting an annual report on a website; it is the deliberate, ongoing process of building and maintaining trust with those who invest in nonprofit work. It is a vital, mission-critical function, yet it carries significant, and often underestimated, risks. These risks span financial, reputational, legal, and ethical domains, and a failure to manage them effectively can lead to more than just a dip in the donor retention rate; it can imperil the future of an organization. This article explores three of the top risk management issues associated with donor stewardship.

The Human Factor: A Primary Source of Risk

Human factors are often strengths, and also areas of vulnerability, in every nonprofit. This is especially true in donor stewardship because it involves establishing and sustaining relationships which, by their nature, are unpredictable. At the same time, it also involves money that has been entrusted to your organization. Maintaining healthy relationships with donors can be complex because money often blurs professional, ethical, and personal boundaries, potentially leading to conflict.

Another human risk factor associated with stewardship is simply taking long-term donors for granted. It is easy to fall into a routine with reliable supporters, assuming their commitment is unwavering. The risk here is not just that they might stop giving (a significant financial risk in itself), but that their disengagement can turn into active dissatisfaction. A disgruntled donor and/or group of donors who feel ignored or undervalued may share their negative experience, which can bring backlash for the organization.

Another source of human-centric risk arises when donors seek ego-boosts or ask for undue influence. Accepting a gift that comes with strings that benefit the donor more than the mission, or that grants an individual inappropriate control over the organization’s direction, can create significant governance and ethical risks. The desire to meet or exceed fundraising targets can make it harder to see the potential long-term liabilities of such arrangements.

Restricted Funds: The Peril of Improper Use

One of the most concrete and legally perilous risks in donor stewardship relates to restricted gifts. When a

donor specifies that their contribution must be used for a particular program or project, the nonprofit enters a legally binding agreement to do just that. The improper use of these funds, even if accidental, can lead to legal action, demands for the return of the gift, and the public perception of unethical behavior.

Reputation: The Uninsurable Asset

Reputation risk is real and requires constant vigilance and careful nurturing of an organization's reputation. Our ever-evolving culture of instantaneous, viral communication heightens the likelihood and potency of this risk. A single negative post or online comment—if ignored or mishandled—can spiral into a public relations crisis, diminishing past organizational successes and jeopardizing future fundraising efforts. Risks to reputation in stewardship include:

- **Lack of transparency:** Being perceived as secretive about financials, program impact, or executive compensation can quickly erode trust.
- **Poor communication strategies:** Infrequent contact with donors or messaging that is misleading, incomplete, confusing, or later disproved can result in perceptions that the organization is mismanaged or corrupt.
- **Mishandling of negative feedback:** Failure to respond to critical comments allows rumors and accusations to fill the silence. Smart leaders respond promptly and with care to negativity, demonstrating a commitment to improvement and accountability.

Manage Stewardship Risk Through Close Attention to Details

Donors expect organizations to stay mission-focused and to stay in touch. They also expect nonprofits to use funds efficiently for program costs, making financial transparency and perceived efficiency paramount. Stewardship is the primary mechanism for managing these perceptions. To do this, nonprofits should:

- **Establish a gift acceptance process:** This formalizes the process for evaluating and accepting major gifts, ensuring the organization can realistically meet donor expectations and/or requirements.
- **Clarify donor requirements in writing:** A gift acceptance agreement holds both parties accountable and provides clarity for everyone involved on how the funds will be used.
- **Implement strong internal financial controls:** Managing both restricted and unrestricted gifts requires robust internal controls, accurate bookkeeping, proper financial oversight, and meticulous financial reporting. These systems must support accurate tracking and reporting on restricted funds to ensure compliance and transparency.
- **Demonstrate that donors matter:** Cultivate a genuine curiosity about donors' motivations, expectations, and evolving interests, ensuring that communications to donors are personalized and meaningful, not generic and automated.
- **Provide clear and transparent communication (the "what"):** Regularly inform donors about the impact their specific, restricted gift is making, linking the financial commitment directly to mission outcomes.
- **Personalize both the channel and the content of communications (the "how"):** Generic, impersonal communication can make donors feel like "ATMs," leading them to seek out organizations that make the effort to create a more lasting impression. Pay attention. Ask your donors how they prefer to receive updates. Listen to them and customize your messaging, bearing in mind donor preferences and channel conventions.
- **Develop a "culture of reflection":** Proactive communication and a commitment to openness are the bedrocks of stewardship. Create an environment in which feedback from donors, even critical feedback, is invited and acted upon, rather than dismissed or fumbled.
- **Engage governance in stewardship:** The board bears ultimate responsibility for risk governance. Be sure development-related reports to committees and the full board provide the opportunity to review the systems, policies, and processes involved in donor stewardship to ensure that appropriate guidelines are in place and are being followed.

The Opportunity in Uncertainty

Risks associated with donor stewardship, while significant, are not reasons to freeze up. Rather, they serve as a call to action for stronger systems, better policies, and deeper human engagement. In other words, these are situations organizations can understand, evaluate, and prepare for, even amid uncertainty. By embracing a robust, thoughtful approach to the risks in donor stewardship—from managing restricted funds and human relationships to safeguarding reputation—nonprofits can transform potentially damaging pitfalls into opportunities. The process is not just about mitigating downside risks. It is also about building stronger, more resilient organizations that can attract a steadily growing constituency of supporters, including donors who want to help nonprofits make a more profound impact on the communities they serve.

Effective risk management in donor stewardship is, in essence, a practice in organizational integrity. It aligns actions with values and demonstrates to every contributor, regardless of the size of their gift, that their trust is a precious asset, managed with the highest degree of care and accountability. This is a bold risk worth taking.

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