The Bridgespan Group

GiveSmart

Frequently Asked Questions About Philanthropy

# What Are the Five Most Common Traps I Should Avoid in My Philanthropy?

Collaborating to accelerate social impact

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## Trap #1: Fuzzy headedness

As a philanthropist, your passions, values, and beliefs will fundamentally drive your giving. But unfortunately, "fuzzy headedness" occurs when donors allow their emotions and wishful thinking to completely override logic and thoughtful analysis. One common symptom: When asked "what are you trying to accomplish?" do you respond with broad, hopeful statements (like "curing cancer," "ending poverty," or "stopping global warming")? If so, you'll need to get more specific because at that level, your goals are still too undefined (and therefore unattainable). Don't assume that a $10 million gift over five years will single-handedly transform an inner-city school district with an $800 million annual budget. Or that providing funding for a single year to a nonprofit will create the big lasting impact you seek. Another common symptom: Did you fall in love with a charismatic nonprofit leader's plan without also asking how realistic it is financially and operationally? Is the nonprofit making the right investments in terms of people and budgets to achieve their goals? One consequence of fuzzy headedness is "feel-good" philanthropy, where happy sentiments abound, but the odds of success are small.

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## Trap #2: Flying solo

One of philanthropy's great ironies is that very little can be accomplished by individuals acting on their own, even when those individuals are extraordinarily wealthy. The greater your ambitions, the more certain it is that success will require working with and through a broad range of other players, including the nonprofit or nongovernmental organization (NGO) grantees you support; other donors who are passionate about the same issues; governments at home or abroad; and members of the public who you might need to influence in order to effect change. The list of potential collaboration partners is long and varied. Yet far too many donors and foundation leaders try to go it alone, assuming that they (often with little experience!) can achieve success unilaterally. Take the example of one donor, whose vision was to build a Morningstar-like organization to rate charities in the nonprofit sector (Morningstar is a leader in providing financial research to for-profit investors). This donor didn't take the time to understand the landscape and failed to learn from others who sought to solve the same problem, which led to him dramatically underestimating (and oversimplifying) the challenge. After spending almost $600,000 over three years, the donor called it quits. If he had had the humility and the patience to learn from others, those scarce resources might have gone much farther.

## Trap #3: Underestimating and under-investing

The third trap to avoid is underestimating and under-investing in creating success. It is astonishing how often donors fall into this trap, given how much philanthropic wealth is created in the high-pressure crucible of business, where mastering the intricacies of investment is essential to survival. The old saying "Everything takes longer and costs more than you expect" holds as true when you are trying to drive social change as it does when you are engaged in home renovations. Yet donors chronically underestimate what it will cost to create results and, as a result, under-invest in the capacity required to make those results a reality. When organizations receive less than required to succeed, they underperform. So the next time around donors give them even less (or nothing), because they didn't perform as expected in the first instance. This vicious cycle will persist until more donors are willing to step up and say (for example), "Let's not fool ourselves. Making a dent in childhood obesity is going to cost many millions of dollars and take years. So let's identify a part of the problem we can solve, and invest resources accordingly."

## Trap #4: Nonprofit neglect

No one likes wasting money, and funding for "overhead" can feel like a waste. As a donor egged on by the media's "most efficient nonprofits" list, you might fall into the trap of thinking that all overhead is bad. But is such money always wasted?

There is such a thing as "good overhead"—its definition is simply what it takes to truly achieve the results sought by both donors and their grantees.

Suppose you decided to fly on the airline that reported the lowest maintenance costs? Or go to the hospitals with the oldest equipment? In many circumstances, you will gladly pay for more "overhead" if it delivers value to you. Nonprofits, too, have good overhead and bad overhead. Paying excessive rent or entertaining lavishly is a waste of money. But what about hiring a chief financial officer who can develop a long-term funding model to sustain the organization's programs (instead of a part-time bookkeeper)? Or hiring an evaluator to determine whether the programs are really working, and how to improve services through front-line staff training (instead of using a few heartwarming anecdotes)? Are those bad investments? Definitely not, and yet donors consistently fall into the trap of believing that nonprofits can deliver A-level results with D-level resources. There is such a thing as "good overhead"—its definition is simply what it takes to truly achieve the results sought by both donors and their grantees. For more on this, see "The Nonprofit Starvation Cycle."

## Trap #5: Satisfactory underperformance

Finally, in a philanthropic world overflowing with appreciation, you might quite naturally fall into the trap of satisfactory underperformance: accepting praise without really pushing yourself to continually improve. Perhaps you look at your grants and decide the results are "good enough"; but the motivation to excel, to improve future results by even 10 percent is lacking. When asked about their relative performance versus that of others, most donors would undoubtedly place themselves in the top half of effective donors (if not the top quartile), a perspective that inevitably nurtures complacency. But the best donors constantly evaluate the top and bottom of their "portfolio," and think about ways to get better results over time.

## How to avoid these traps

As you can see, it's important to learn from others who have faltered. But because driving social change is enormously difficult, sometimes the biggest "mistake" of all is being so afraid to make a mistake that you fail to make decisions, and fail to learn (and teach others) about the times when you misstep.

Acknowledging the existence of these traps, and recognizing that they will never really go away, however experienced and wise we become, offers some help in avoiding them. Philanthropy almost always involves a fair degree of trial and error. By prioritizing thought as well as action—thinking through the relevant questions with appropriate rigor and discipline—you will reduce the frequency of your errors and make your trials more valuable. The good news is that even a modest amount of preparation can help you avoid philanthropy's insidious traps and start you on a path toward better performance. The rewards of doing so will multiply over time, as communities are better served and society's thorniest issues are more effectively addressed.

*See the Givesmart.org Content Library for more Philanthropy FAQs.*

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**SOURCE USED FOR THIS ARTICLE:**

- Thomas J. Tierney and Joel L. Fleishman, *Give Smart: Philanthropy that Gets Results*, (Public Affairs, 2011)