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A Corporate Mentality in Charity Boardrooms?

Hey, Bring It On

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MEMORANDUM
To: Board Chair
From: Executive Director
Re: Acting Like a Business

I just returned from my 16th straight conference where the keynote speaker said we charities should act more like business. I never really understood what they were saying before, but I've just had an epiphany. There could be a lot of benefits if we did.

First thing we do is raise my salary. The median salary of the Fortune 100 CEO's is $13.2 million. The median salary for CEO's of the top charities surveyed by The Chronicle of Philanthropy is about $285,000. We have a lot of ground to make up.

I know that none of the charities is as big as the Fortune 100, and maybe we can't get so much on an absolute scale. But we can certainly raise the ratio of my salary to the average salary of our other employees. According to The Wall Street Journal, a lot of business CEO's in this country are making 400 times the average worker's salary. My ratio is four, maybe five, to one, tops. I can hardly wait to start acting more like business.

But don't think it's all about me.

We'll pay the Board of Directors too. The average fee for "independent" members of a Fortune 1000 Board is about $75,000 a year. We may not be able to do quite so well for you, but forget volunteerism.
You'll definitely notice the change. You guys have certainly worked as hard as they did at Enron, Worldcom and the New York Stock Exchange.

We won't have to worry whether any of this compensation is reasonable. Business doesn't have to worry about those pesky taxes on excessively generous salaries and benefits.

We also get to change the composition of our Board. I don't know why we need so many people from the community anyway. We can add more of my staff to reduce the chance of dissent. We can get more of my executive director buddies who understand why I should be paid more. And we can get rid of most of the women and minorities so we white guys can feel like it's a club again.

We won't have to worry about getting the right people elected. We'll act like a business. We'll give our members a proxy without any choice.

All of these keynoters say we have to be more efficient. It's taken a while, but I think I now understand what they mean.

I've already taken action to improve our crisis intervention hot line so it will be more like customer service. I have a new tape for callers on hold, telling them every three minutes that their calls are important to us and please don't hang up because we take calls in the order they are received. We fill the dead time with appeals for contributions.

I've also installed timers on the phones to measure the average duration of each call. We want to be sure that our counselors don't spend too much time on any one crisis.

(By the way, I've begun to look offshore for people who can handle these calls. Our social workers are being paid an awful lot of money, and we could really save big time by going abroad.)

I think we'll just stop handling those domestic abuse complaints. Those people take far too much time. And, of course, we'll stop serving anyone who can't pay.

We'll concentrate on more profitable services, too. We probably don't have to go as far as the tobacco companies. Their products kill 1000 people a day. But they sure are profitable. And in business, profit is what counts.

If we really act like a business, we might even qualify for business subsidies. Guaranteed cost-plus contracts, maybe. Or grants to not provide our services, like the farmers get. Those horizons are almost endless.

This business stuff sounds more like fun every time I think of it.

There are still a couple of things that I don't fully understand about what these gurus are saying, however. Bill Bradley and those guys from McKinsey & Company who wrote that Harvard Business Review article in May say charities could save billions if we would just cut our fund-raising costs. They say it costs business only about 5 percent to raise capital, while it costs charities 18 percent to get our contributions.

But when business has a capital campaign (they call them public offerings over there), they dangle the prospect of unlimited profit in front of those who make a contribution and buy shares in the business. When we have a capital campaign, we promise them a thank-you letter, and maybe their name on a plaque in the lobby. Somehow it seems easier to sell the prospect of infinite personal profit than the prospect of a thank-you letter from you or me, no matter how flowery we are. But if McKinsey says we can do it, I'm sure we can.

I also haven't figured out how businesses account for their fund-raising costs. Their fund raisers (they call them underwriters) recommend the price for each share of stock the business sells in its initial public offering. The fund raisers then let their friends buy the first shares. Almost without fail, the public is willing to pay more than the price the underwriters set, often 10, 20, or even 30 percent more. Sometimes a whole lot more than that. The friends flip the shares to the public at the higher prices and make out like bandits.

The gurus say it doesn't cost business much to raise these funds. They don't seem to include as a "cost" the difference between what the company actually got and what the public was willing to pay. But who cares? It looks like a really efficient process, and the appearance of efficiency is good.

If we had a fund raiser like those underwriters, I'd hate to imagine the reaction we'd get from Lisa, who's always been the naysayer on the board. I can see her now, screaming that the fund raiser had breached some sort of fiduciary duty by getting us so much less when the public was willing to give us so much more. But you know Lisa. She just doesn't get this business stuff.

If business does it, it must be good.

One other thing I still need to figure out, though. You know, I started this charity 20 years ago with my own blood, sweat and tears. I hardly took a salary for the first five years. Now that I'm ready to retire, I'd love to sell it. Two or three times annual revenues might be a good price. I haven't figured out how to get that money for myself yet.

But if we continue to act like a business, I'm sure I'll find a way.

-Donald W. Kramer and Vicki W. Kramer
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