
# THE WAY WE THINK ABOUT CHARITY IS DEAD WRONG

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# REVIEW ON TED TALK

## THE WAY WE THINK ABOUT CHARITY IS DEAD WRONG

## Speaker

Daniel Pallotta is an American entrepreneur, author, and humanitarian activist

## Summary

People question the role of charities compared to business. Business will definitely lift the standards in the developing world, but will always leave gaps – people that it can't support. Some mentally disabled people just want compassion or love, and that can't be monetized by a business. However, there are perceptions working against the non-profit sector that make it hard to 'compete' against businesses

- Compensation: People react viscerally against charity workers being well paid. However some are extremely well qualified: a CEO of a hunger charity is paid ~$86k/yr and has similar qualifications to a Stanford MBA graduate with an average $400k/yr. Someone on $400k /yr can donate $100k/yr, reduce his tax bill by $50k, be seen as a philanthropist and still be $260k better off than the high-paid 'parasite' running the charity.
- Advertising: Similarly, people do not like the idea of their money being spent on advertising. However, the percentage of people's wage being given to charity has stayed at 2% for 40 yrs – the only way to gain 'market share' in the charity sector is to actually do marketing against the 'for profit' sector.
- Risk: If a charity invests in a fundraising drive and it flops, it ruins their reputation. But if people cannot accept failure, there will be no innovation or improvement.
- Time: Companies can take years to develop market share before they gain revenue. However donators will not accept a 6yr wait before any funds reached the needy.
- Profit: For-profit companies can use the promise of future profits to attract capital investment. Charities are locked out of this capital stream.

These disadvantages add up – since 1970 only 144 charities have passed $50million revenue, compared to 46,136 for-profits.

People hold the above perceptions, and it is typified in asking "How much of a donation goes to overheads compared to 'the cause'?" This question has some problems in it:

- It implies 'the cause' is not helped by overheads. This is not the case, especially if the overheads are spent on 'growth'.
- It prevents charities from growing or investing in fundraising. However if fundraising actually raises funds, then it should be encouraged, giving them more money to push towards the cause.

As examples of successful fundraising, Dan describes how $50,000 investment in an AIDs Ride resulted in $108,000,000 extra revenue for research, or $350k investment in breast cancer fundraising multiplied to $194,000,000. However, one year he netted $71 million for breast cancer research and was put immediately out of business. The media and his sponsors turned on him because 40% of his revenue was spent on overheads – in growth, customer service and recruitment.

The focus should not be on overheads, but on the scale of the operation. A company with 40% overheads netting $71,000,000 should be seen as superior to one with 5% overheads netting $71. We need to rethink how charities should work, and focus on whether they are achieving their goals rather than their investment to get there.

## My Thoughts

Dan speaks very passionately and puts forward a new perspective; however I can't help but disagree with him. His focus is entirely from an individual charity's point of view – where of course it is a no-brainer to invest more in recruitment and marketing. However some of these efforts will not be 'poaching' resources from the for-profit sector, but from other charities. This gets worse as charities get bigger, and will generate an arms race between them. The money is coming from outside the charity: donators do not expect that their money is taken and 40% of it used to beg someone else to donate, or convince others to pick this charity over another. This is not an efficient use of money – pure growth implies an ego that ignores what the donators expected.

When someone buys a can of coke, they accept that (made up numbers) 20% goes to the cost of ingredients, 10% to the employees, 10% in packaging / transport, 30% to retailers, 20% in advertising and 10% profits. Dan's argument is that the same sorts of ratios should be accepted in charities: that if a fraction of the money we give him goes to what he said it would, we should accept it because the rest was used to generate money at similarly poor efficiency from someone else.

I'm also slightly disturbed by the focus of the speech: which was from the point of view of the charity while ignoring results of the fundraising or opinions of the people donating. It is nice that he raised $71million, but what did that money achieve?

I appreciate what he is saying about scale of an organization, and compensation or risk. But like it or not, people do want a sense of frugality rather than massive structures designed to just support the business.

Anyway, it was a good talk to make you think about your own viewpoints. My reaction above is not because I disagreed with every point in his speech, and not because I didn't appreciate it.