# <u>**Tone at the Top Sets the Tone for All**</u>
**By James F. Finlay**

You have probably heard it said often that, " the Tone at the Top sets the pace for the organisation." It's just as true for nonprofits as it is for business.

Take for example, the matter of clarity and transparency in the organisation's reporting, internally and externally. If the Board Chair, and the Board of Directors, and the ED are all pushing clarity and transparency, then that becomes the characteristic of the whole organization. And if that is not the case, then we tend to want to get away with whatever we can.

So, let's say were dealing with the "cost-to-raise-$1" standard of performance. There is two ways to represent that: one is to report more obvious costs of fundraising, such as website and internet costs, printing costs, travel, hotels and meals, etc. The other way is to include salaries and benefits of the professionals and volunteers involved in cultivation and solicitation at all levels.

## ***<u>Case Study #1</u>***

George S., the ABC Charity's grant writer sees that the I Care Foundation wants to know the organisation's overall cost-to-raise-$1 in the application that they are currently preparing for the Foundation. So George goes to his Manager of Development, Mary, for the information, and she goes to the Financial Officer, Frank, in turn.

The first thing these three do is look at how the ED, Herb T. has talked about the organisation's fundraising expenses in the past. The Annual Report had no listing for fundraising expenses at all. The narrative of that report spoke in glowing terms about the revenue's raised, but not a word about expenses. The expense chart didn't list fundraising expenses either; these were buried inside other, more general figures. Looking at the organisation's audited financial statement, one could not discern that there was anything at all expended for fundraising. It all looks like program and administrative expense.

Consequently, Mary and Frank work together to get just the figures for the upfront costs of special events and direct mail. They add in the special coffee-table brochure they made up last year and the cost of the planned giving newsletter and the corporate menu of benefits. Then they project those costs over all the money that the development department brought in: direct mail, special events, major gifts, planned gifts, grants and corporate contributions.

The result is that they come up with a cost of about $0.05 to raise $1 and look really golden. The Foundation loves it! They get the grant because the foundation didn't look into the details of how that cost to raise $1 was determined. And the whole thing starts at the top of the organization because Herb has repeatedly shown that he doesn't want to tell the public how much is being spent on fundraising.

## ***<u>Case Study #2</u>***

Melanie Z, the grant writer for Long-Established Charity Enterprises applies for the same grant from the I Care Foundation. She goes to her Manager of Development, Eugenia, for direction and she, in turn, goes to the Financial Officer, Marty for help. They sit down at a similar conference table to work this out. And they all are aware that the ED, Paula has repeatedly said that fundraising is an important, even a vital, part of the organisation's work and has urged clarity and transparency in all reporting. In their annual report LECE has always separated fundraising expenses from other expenses and has included salaries and benefits there and noted them. In the pie-charts for revenue, we see fundraising revenue broken out, and we see a similar section of the expenses chart related to fundraising. Paula has set the standard that all fundraising is a "profit center" and should be accounted that way.

Consequently Melanie and Marty put together a cost of fundraising that comes out at about $0.35 to raise $1 and they put that on the application to the Foundation. And they don't get the grant, because someone at the Foundation failed to note the difference in reporting.

## ***<u>What's the lesson?</u>***

Well, what it's <u>**NOT**</u> is that Foundation is careless.

The lesson is that leadership at the top determines how clarity and transparency in reporting is done throughout the organization and is reflected on things like grant applications. This in turn is reflected in how others outside view the organisation. And, yes, if you hide the fundraising expenses your cost to raise $1 will look pretty good on paper and you'll get the grant. But is that what you want to do? Is it ethical?

***Is it the truth?***

The lesson ALSO is that, in this instance, you have to go to the Foundation staff and interpret and clarify how you have arrived at that cost-to-raise-$1 figure, and make sure they are aware that there are different ways nonprofits can represent this cost. You need to tell them that while you've put in ALL the expense, other nonprofits may tend to skimp on clarity and put in only what they have to in the way of fundraising expenses, and help these foundation staff see the difference between the two methods of calculating this important performance index. In the application itself, you can break out all the various components and then create a commentary paragraph to explain the situation and head off unwanted and unwarranted comparisons between the reporting methods of various nonprofits.

Honesty is the best policy. And it starts at the top. AND it may take a relationship and some words of interpretation to help others understand the results of your honesty. So being honest, clear and transparent takes more work and is harder to do. But consider this, when you got into nonprofit work, was it ease of life you had in mind? **Ask your ED that question**.

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Visit www.finlay-associates.com and watch the video on Tone at the Top and How Fraud Hurt's your Government Organisation.

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