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Commission-Based Compensation for Fundraising

Commission-based compensation for fundraising by staff and consultants, although legal, is widely viewed as a bad practice for nonprofits.

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Summary

While some argue for exceptions, many view commission-based compensation for fundraising and development professionals as a bad practice or as unethical. The standards of practices set forth by the Land Trust Alliance, The Giving Institute, and The Association of Fundraising Professionals do not allow for commission-based compensation. In contrast, performance-based bonuses that are not based on a percentage of revenue raised may be acceptable.

Introduction

Should the salary of development staff be composed in part or in whole on a percentage of the money they raise, or should their salary be a set amount, which is paid from the organization's operating budget?

Problems with Commission

While commission-based fundraising is legal, it is generally considered to be a bad practice and/or unethical. Arguments against the practice include that:

- Development staff and consultants should be compensated based on their experience, expertise and the value of their work. Commission-based compensation poorly tracks these qualities.
- Fundraising is a team effort, involving both those directly assigned to development work and those who run the programs that are of interest to donors. Given this team context, it is challenging if not impossible to accurately allocate credit for revenue received to one person or another.
- Because fundraising is an ongoing endeavor, current revenues received may be the result of efforts of others in previous years, and current activities may result in revenues that are received only in the future, making it difficult to accurately and fairly calculate a commission.
- Commission-based pay creates incentive to place personal gain and short-term goals over charitable mission and long-term success.
- Commission-based pay may undermine the trust of donors.
- Many funders do not allow their grantees to use commission-based compensation.
- Having both commission and non-commission based positions within a non-profit organization can create ill will and resentment amongst staff.
- Because the amount of work required to obtain a donation is not always directly related to the amount received, compensation based pay may not fairly reflect the effort invested and expertise of the fundraiser.

Standards of Practice

The Land Trust Alliance, The Giving Institute, (formerly the American Association of Fundraising Counsel) and The Association of Fundraising Professionals have established standards of practice and ethical codes that do not allow for commission-based fundraising.

- The Land Trust Alliance's *Land Trust Standards and Practices*, *Standard 5A: Fundraising* states*: "*The land trust complies with all charitable solicitation laws, does not engage in commission-based fundraising, and limits fundraising costs to a reasonable percentage of overall expenses."
- According to The Association of Fundraising Professional's *Code of Ethical Principles and Standards*, "Members shall not accept compensation or enter into a contract that is based on a percentage of contributions; nor shall members accept finder's fees or contingent fees." In this context, a finder's fee is defined as "a fee paid for bringing a donor or a contribution to a not-for-profit organization".
- The Giving Institute's Professional Code states: "Member firms charge clients based upon the professional services provided. Their fees are never based upon charitable gifts raised or a percentage of contributions."

Underlying Principles

According to the Association of Fundraising Professionals (Frequently Asked Questions (FAQs) About Fundraising Ethics), there are three primary principles of nonprofit fundraising that underlie their stance on commission-based fundraising.

1. Donations are voluntary actions for a public benefit.
2. Seeking and accepting donations should not personally benefit the staff, contractors, or representatives of a nonprofit.
3. A donor's trust and attitude towards the nonprofit can be irrevocably hurt by undue pressure and/or the awareness that a commission will be paid from his/her gift.

Discussion Of The Reasons to Not Use Commission-Based Fundraising

Organizational And Donor Interests

Working on a commission may cause development staff to prioritize their own personal interest and self gain over the organization's mission and long-term interests and the donor's best interest. It incentivizes focusing on the work that maximizes the amount of money to be raised in an identified period of time, rather than on long-term development strategies. Donor attitudes can be unalterably damaged in reaction to undue pressure, thus compromising the trust on which charity relies.

There are a variety of charitable giving instruments, including deferred giving arrangements, from which prospective contributors may choose. A staff person working on commission may influence, or be perceived to influence, which of these a donor chooses so as to generate the greatest current donation rather than the one that provides the best long-term benefit to the donor and the nonprofit.

Some foundations, corporations, and private donors will not make a contribution if a portion of the donation will be paid as a commission. In some cases, they will not give to a campaign that pays any commission at all.

Ongoing Work and Team Work

Fundraising is an ongoing process of donor identification and cultivation, long-term relationships, staff teamwork, and a carefully developed volunteer program which includes the work of board members. Its success, or failure, cannot fully be measured by calculating total revenue at a chosen point in time.

Commission-based compensation can provide reward without merit, and can overlook the benefits of building a strong development program. Fundraising is an ongoing endeavor; revenues received may be the result of efforts of others in previous years, and current work may not result in revenues until future years. Contributions that materialize at a given moment are often the culmination of the efforts of many people, including volunteers, over long periods of time.

Nonprofits sometimes receive large unsolicited gifts such as bequests, from benefactors previously unknown to the organization. To include such windfall gifts in a calculation of commission would again provide reward without merit.

Nonprofit development involves the promises of future payments, such as written pledges, annuities and insurance contracts. A commission-based development professional will want his/her percentage when the pledge is made. What happens when a multi-year pledge payment falls through, or if the donor stretches out a payment schedule? Does the non-profit expect the development professional to wait for years as the payments are made or to give back commissions already paid?

An effective development program includes volunteers, including board members in its fundraising efforts. The work of development staff should include building an increasingly committed, enthusiastic and capable group of volunteers who can successfully participate in the fundraising process. However, tying staff compensation to a percentage of contributions raised may discourage this activity, which jeopardizes the long-term health of the organization.

The work of development staff relies directly and indirectly on the work of other staff and volunteers. Giving a commission to only development staff diminishes these contributions.

Commission-based pay is out of line with compensation practices for other staff and consultants within the non-profit. Additionally, commission based compensation can be seen as going against the implicit understanding that successful fundraising efforts are reliant on how successfully the organization carries out its mission, and therefore the entire staff. Thus, this practice can create resentment and can lead to a failure by other staff to support fundraising efforts.

The "Hired-Gun" Syndrome

Commission-based pay can lead a development professional to view his/her work as a succession of one short term goal after another rather than work which allows the organization to accomplish its long-term and overall objectives. It encourages the professionals to associate their professional identity with their track record, not with the organization's goals.

Creating Ill Will

Should an unexpectedly large gift come in, the organization's board or its director may want to change the structure of the development staff's compensation, creating great potential for ill will and bitterness. If the methodology for calculating the value of in-kind donations is not clearly set and written down in advance, (by wholesale value, retail value, or another method), this too can create ill will and bitterness.

Private Versus Non-Profit

A common justification for commission-based pay is that it is commonly and successfully used in for-profit company sales position. However, incentive-driven efforts for the sale of commercial products involves a selling and buying environment which customers understand and expect. The motivating factor in commercial behavior is primarily personal gain. In raising funds, non-profits are not selling a market good to prospective donors, they are presenting them with an opportunity to contribute to something in which they believe and which they want to support. Staff working on commission are, to some extent, motivated by private benefit at a level greater than non-commission employees, which creates an inherent conflict of interest with the charity employing them, which would be founded without intent of profit or private benefit. Ask someone if he or she expects salespeople to get a percentage of the price paid for a purchase and ask a donor if he or she expects the person asking for a charitable gift to get a percentage of that gift. The answers will be different.

Raising Your Own Salary

According to Tony Poderis, (The Argument Against Paying Development Professionals Based on Amount of Funds Raised), too often, especially in smaller organizations, nonprofits charge development officers with the responsibility of raising their own salaries, which belittles them and damages the organization. Instead of treating fundraising and development work as a regular operating expense, this vital work becomes an afterthought, something outside of an organization's regular operational activities. Successful organizations view development staff salaries in the same light as any other personnel expense and understand that a strong development program is central to carrying out the organization's mission. Organizations should budget for development staff salaries and expenses, just like rent, utilities, supplies, and programming salaries.

The primary concern of a development officer is to create and maintain a structure to raise the funds to cover the organization's day-to-day operations. After that comes work on capital and endowment campaigns. However, if development staff are charged with raising their own salary, they cannot maintain that order. This is not meant to imply that development staff in this position will act selfishly and will ignore the organization's needs. But they will realize that the organization's needs can't be met unless there is someone in place to manage the work. That automatically prioritizes funding their salaries.

Pedaris gives several more arguments against the requirement to have development staff raise their own salary. Development officers in this position will approach the organization's surest donors for their salaries, which potentially leaves some of the organization's best prospects under solicited. When they are worried about the short-term goal of covering their paycheck, they may be unable to concentrate on the long-term goals of building a successful pool of volunteer solicitors. If they are unsuccessful in raising their salaries, will they get paid and how will the organization cover this shortfall? Can an organization attract the best development professionals if they provide them with an insecure environment?

Examples of Unacceptable Compensation Practices

The Association of Fundraising Professional (AFP) gives 3 examples of unacceptable compensation practices.

- If an organization lacks a sufficient development budget, offering a commission-based salary with the expectation that it will be converted to a salary or fee position when funds are available.
- Disguising compensation as salary, fee or bonus when it is, in truth, a percentage of funds raised.
- Accepting a compensation package that is part salary with the balance to be made up as a percentage of the funds to be raised.

Bonuses

According to the AFP's *Code of Ethical Principles and Standards*, bonuses can be given to fundraisers if the organization has a policy of awarding performance based compensation and the amount of the bonuses is not based on a percentage of contributions. These policies must be approved by its governing body and may not be limited to fundraising activities. The awarding of bonuses must be based on accomplishment of mutually agreed-upon, pre-established overall goals related to the staff person's responsibilities. The amount of the bonus cannot, in any way, be determined using a percentage of contributions received.

According to the AFP, this differs from commission-based compensation in that the determination of the award is based on overall performance of responsibilities and meeting the organization's needs versus compensation that is computed purely or partially as a percentage of revenues received.

Counter Argument

In *The Nonprofit Consultant Blog*, author Ken Goldstein examines situations when a contingency fee for grant writing or other fundraising may be appropriate. While he believes that a set fee for services is the proper way to go in most situations, he explores the situation of small or startup nonprofits that require professional services, but cannot afford a set rate for the services until the funds are raised. He argues that the professional standards set forth by organizations such as the AFT, while serving a good purpose, could serve as a roadblock for grassroots organizations struggling to serve their mission. He writes "more and more I'm convinced that a compromise can be reached where nonprofits are not bankrupted by fundraising costs, and contingency fees, with set caps, may be used that meet the needs of everybody involved."

Library

Related Library Categories at ConservationTools.org

Fundraising Practices

Featured Library Items at ConservationTools.org

[Featured library items are identical to those studies summarized in this guide.]

The Argument Against Paying Development Professionals Based on Amount of Funds Raised

When the Development Officer Is Obliged to Raise Her or His Own Salary: Paying For Your Own Keep

The Nonprofit Consultant Blog: *A Different Point of View* and *Yet More On Percentage-Based Fundraising*

When the Development Officer Is Obliged to Raise Her or His Own Salary

Frequently Asked Questions (FAQs) About Fundraising Ethics

The Association of Fundraising Professional's Code of Ethical Principles and Standards

Related Guides

Land Trust Standards and Practices.

Experts

The Association of Fundraising Professionals
The Giving Institute

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