

# Ethics

By Michael J. Rosen, CFRE

Ethical fundraising practices are the cornerstone of the profession, and *Advancing Philanthropy* endeavors to provide readers with examples and case studies to illustrate best practices. However, such examples are not intended to provide legal, accounting or other professional advice. For a copy of the AFP *Code of Ethical Principles and Standards of Professional Practice*, with enforcement procedures, time limits, forms, addresses and phone numbers, visit [www.afpnet.org/ethics](http://www.afpnet.org/ethics) or ask any chapter president for one.

## Scaling the “Capital” Steps

You are considering a position with a nonprofit organization as the director of an upcoming capital campaign. The CEO offers you a salary and an annual incentive bonus “in steps” if the campaign meets certain milestones. The salary offered is a little less than you hoped for, but the bonus would be 25 percent of your annual salary if the campaign reaches its first-year goal, 25 percent if the campaign reaches its

On the other hand, AFP permits members to accept bonuses when organizations meet certain conditions. According to **Standard No. 17**, “Members may accept performance-based compensation, such as bonuses, provided such bonuses are in accord with prevailing practices within the members’ own organizations, and are not based on a percentage of contributions.”

In this case study, the bonus is a

is applied fairly throughout the organization.

**2. Suppose the CEO said you would be required to keep the bonus arrangement confidential because the organization has a policy of keeping the terms of individual employment confidential. Only one or two other managers in the organization have bonus provisions in their employment contracts. In fact, only two other managers besides the CEO have employment contracts. Would you be violating the AFP Code if you accepted this condition?**

Confidentiality of the bonus arrangement and employment contracts is not the issue. Instead, the issue is fundamental fairness. As development professionals, we recognize that our success is really not ours alone but rather due to the efforts of many within the organization. If the development professional has an opportunity for performance-based compensation, then others in the same job class should have a similar opportunity.

According to **Standard No. 17**, bonuses must be “... in accord with prevailing practices within the members’ own organizations. ...” In other words, all employees of comparable rank within the organization must be eligible for a similar performance-based bonus. While organizations should tailor bonuses to the unique responsibilities of the various employees, all employees within a class should be eligible for a similar size performance-based bonus with a similar degree of difficulty set for achievement of the bonus.

While the illustrated bonus model is not itself unethical, the deployment of the bonus could be unethical if a comparable bonus system is not in place for other employees at a similar job classification. If only one or two members of the management team in the same employee class are eligible for bonus rather than every member, then the

second-year goal and 50 percent if the campaign reaches its third-year goal.

### **1. Would you be violating the AFP Code if you accepted this compensation package?**

AFP members cannot accept commission-based compensation, according to **Standard No. 16** of the AFP *Code of Ethical Principles and Standards of Professional Practice* that reads, “Members shall not accept compensation that is based on a percentage of contributions; nor shall they accept finder’s fees.”

percentage of the development professional’s salary and not a percentage of contributions. Furthermore, the bonus formula is linked to an aggregate goal and not individual contributions. Employers expect development professionals to achieve results. Rewarding performance is fine if it does not directly link reward to individual gifts and does not link the amount of the compensation to the amount of individual gifts. Furthermore, performance-based compensation is fine provided that the concept of bonus compensation



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For confidential ethics advice about proposed transactions or other matters related to the AFP *Code of Ethics*, call AFP's CEO at 703-519-8440 or general counsel at 703-519-8455. (Please note that legal counseling cannot be provided.)

practice would be considered unethical. If the "prevailing practice" is not to offer employees bonuses, then the organizations cannot offer bonuses to

only some in an employee class.

In addition to the concept of individual bonus plans, some organizations have even developed team bo-

nus systems that reward all employees when they achieve overall organizational goals. AFP members can participate in such bonus plans because the "prevailing practice" is to include all of the employees.

The keys with any bonus system are to make certain that performance-based compensation is a prevailing practice within the organization and to ensure that no bonus is linked directly to individual contributions.

**3. Suppose the CEO offered to base the bonus each year on a combination of the aggregate dollar goal, as presented above, as well as the number of gifts and pledges in the campaign. Would you be violating the AFP Code if you accepted this plan?**

Standard No. 4 reads, "Members shall


not exploit any relationship with a donor, prospect, volunteer or employee for the benefit of the members or the member's organization." This standard, as well as **Standard No. 16** and **Standard No. 17** prohibit any commission associated with individual contributions. However, in this example, the bonus is calculated as a percentage of the development officer's salary when an aggregate goal is achieved. The bonus is not linked directly to the outcome of a contact with an individual donor. Members can accept bonuses for hitting an aggregate goal for the number of gifts and pledges as well as an aggregate dollar goal. On the other hand, if the bonus plan were based on a percentage of contributions or if a bounty were paid for each new donor, the bonus would be deemed an unethical practice.

AFP's *Position Paper: Percentage-based Compensation* (1992), which is available on the AFP website at [www.afpnet.org/ethics/ethics\\_papersarticles](http://www.afpnet.org/ethics/ethics_papersarticles), identifies the critical reasons why AFP believes in a clear division between compensation and contributions. To link the two could mean, among other things, that:

- charitable mission can become secondary to self-gain
- donor trust can be unalterably damaged
- there is incentive for self-dealing to prevail over donors' best interests

Through a bonus system that rewards the achievement of an aggregate goal, be it dollars or donors, an organization can reward performance and the achievement of the organization's fundraising objectives without providing a robust incentive for self-dealing that could be present in a commission-based compensation plan that would reward the development professional based on the outcome of each individual donor contact.

By ensuring that the bonus compensation is part of an organization's prevailing practice, an organization minimizes the perception and actual risk that the development professional is involved in self-dealing while doing his

or her job. Furthermore, when bonuses are a prevailing practice, they ensure fundamental fairness and recognize every participant's role in achieving organizational objectives. 

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