

## Percentage-Based Remuneration in Fundraising Call for Comments from FIA Members

### Section A. Background

The former FIA Principles and Standards of Fundraising Practice prohibited remuneration “calculated as a percentage of total funds raised”, as follows. This was contained in the main document, which was worded as mandatory for FIA members.

*“4.5 An individual Fundraiser must not use a method of remuneration for their services that is calculated as a percentage of total funds raised by the Fundraiser.*

*4.6 Nothing in section 4.5 prevents a Fundraiser from using a method of remuneration for their services that is calculated as a performance-based remuneration referring to the amount of Donations obtained, providing that it is not calculated as a percentage of the total amount raised.”*

The definition of “fundraiser” included “persons, organisations and corporations” however the reference in 4.5 to “individual fundraiser” seemed to confine the prohibition to a “person”.

The FIA Code now provides:

*“6.3 Members will ensure that Supplier costs incurred in fundraising are proportionate to the funds raised and represent fair market value for services provided.”*

The Practice Note on Fundraising Supplier Agreements, which is a guideline, not a mandatory obligation, now provides:

*“Members should not remunerate Suppliers based on a percentage of the amount of the donation. However, remuneration based on a reasonable commission or bonus that is not related to the amount of the donation is acceptable.”*

### Section B. Rationale for the Prohibition of Percentage-Based Remuneration

There are at least six normative ethical arguments against percentage-based remuneration.

#### Donor-Centric Arguments

1. Percentage remuneration may lead to short-term decisions by fundraisers to maximise their remuneration. This includes improper manipulation or pressure on donors to give immediately, or give amounts which might be financially unwise. These problems would be exacerbated if the donor was in vulnerable circumstances.
2. It can sour a donor's motivation and fulfilment to know that the more they give, the more a professional will be paid.

### Trustism Argument

3. No matter what the objective merits of percentage-based remuneration, the public trust in all charities can be damaged if even one charity suffers a "scandal". There can be media outrage centred on a significant proportion of a gift going immediately to a professional or supplier rather than the intended mission of the charity. This happens most frequently in relation to face-to-face regular giving donor acquisition. Even if fundraisers think that donors' and public perceptions are "unrealistic" or "unreasonable", this is a case where "perception *is* reality".

### Beneficiary-Centric Arguments

These arguments centre of the rights of beneficiaries to receive the maximum services from charities, and obligations of charities to conduct fundraising in the most effective way possible to enable this.

4. Charities may not receive professional advice which properly balances short-term and long-term considerations. In mass-market fundraising, an example is the balance of resources and attention between donor acquisition, and long-term donor experience and donor retention. In major gift fund raising an example is asking for a gift "too early" and receiving a smaller donation than would be possible with more time for donor cultivation.

A fundraiser might be more likely to provide balanced advice when they are paid by fixed remuneration, not by percentage remuneration.

5. In cases of commercial suppliers –percentage remuneration gives an incentive for a charity to not undertake all of its part in "being an effective, engaged client". That is, percentage encourages a mindset for the charity managers like "the supplier has an incentive to do all the work, we get donations if they do well, we have other priorities, we outsourced this service so we could concentrate on other things".

### Duty-Based Argument

6. This argument is based on a moral duty to refrain from reward without effort. "Contributions that materialise at a given moment are often the culmination of the efforts of many people, including volunteers, over long periods of time" (AFP Professional Compensation Position Paper). Examples include windfall gifts, and gifts resulting from the efforts of previous employees in the same role as a current fundraiser.

Good fundraising results depend on good performance of staff doing each fundraising

role, and on good programs for the charity's mission. It may be hard to fairly separate achievement of results for individuals. If performance-linked remuneration becomes significant it may cause resentments if it "naturally" gravitates to direct income-earning staff, to the exclusion of staff in donor service, stewardship or business analysis roles.

Despite the arguments for percentage-based prohibition, most of the overseas commentary about the issue makes clear that the various codes do not prohibit performance-based remuneration approaches. These could include bonuses based on the amounts of funds raised (but not percentages), and overall remuneration schemes which include funds raised along with other elements like quality of services, collaborative behaviour within teams, durability of results.

### **Section C. Rationale for Permitting Percentage-Based Remuneration**

There are at least three normative ethical arguments in favour of permitting all or some percentage-based remuneration.

1. Professions can benefit from restrictive remuneration practices, by cutting off the choices which customers (in this case, the charities buying services) have for how they pay. In theory, if provision of fundraising services is a market with well-informed customers and multiple suppliers this could suggest letting each customer (charity) make its own determination of the risks, rewards, and net benefits of how it remunerates its staff or suppliers. The success or failure of the fundraising results would let charities make choices.
2. Even if ethical arguments for prohibition are sometimes valid, there should not be a "blanket" prohibition. There are cases where the possible harmful consequences of percentage-based remuneration are very distant from the behaviour of fundraising staff or suppliers. One example is the general acceptance of small percentage-based fees for some online giving platforms.

The logic here is that the behaviours aimed at being avoided by the prohibition (short-term thinking, manipulation or pressure on donors) are less likely risks when there is no direct personal influence between the donor and the fundraiser. Also, the technologies mean there are lower barriers to entry, so there is more likely competition for the percentage fees charged.

3. Managers and ultimately boards have the responsibility for decisions about investment and acceptable costs for the long-term delivery of funds which will be spent for maximum benefits to society. It is not straightforward or useful to "second-guess" these decisions with blanket prohibitions on methods of fundraising (unless they are inherently unlawful, misleading, involve undue pressure etc.).

Donors' interests and public trust requires disclosure of overall fundraising costs, and an explanation of the reasoning behind them, but not disclosure of every detail of these costs (such as remuneration methods). The exceptions are where charity regulations require these disclosures (e.g. some state laws about commercial fundraising).

The rights of beneficiaries to enable charities to conduct effective fundraising give weight to allowing discretion to management and boards, rather than accept a blanket prohibition.

## **Section D. Questions for Consideration**

**Question 1: should a general prohibition on percentage-based remuneration of suppliers be**

- restored to the Code as a mandatory requirement
- remain unchanged in a Practice Note, or
- be wholly removed from both?

**Question 2: are there specific types of fundraising services which should be exempted from any general prohibition on percentage-based remuneration?**

**Question 3: should the Code or a Practice Note make any references to employees of a charity in relation to percentage remuneration?**

**Question 4: are there recent examples of harmful consequences from percentage-based remuneration?**

There is little reliable information about the extent or terms of percentage-based remuneration in supply relationships with charities for different fundraising activities in Australia, and whether the change made in 2017 has had any effect on practices.

Suppliers and charities which are FIA Members are encouraged to share de-identified financial information, ideally revenue and cost structures to explain their views on impacts of the use or prohibition of percentage-based remuneration. Any such information should be clearly marked “Confidential - Not for Circulation”. It will not be quoted or attributed to any Member and will be viewed only by the FIA CEO.

## **Section E. Next Steps**

- This Call for Comments closes **midnight AEST Friday 24 September 2021**.
- **Email comments/your submission to [kraskob@fia.org.au](mailto:kraskob@fia.org.au).**
- The Code Authority will review and make recommendations to the FIA Board.
- Any changes to the Code or Practice Notes if approved would have effect from 1 January 2022.

## **Reference**

A more detailed, slightly different analysis of the arguments against percentage-based remuneration is made in the [AFP Professional Compensation Position Paper](#).