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PHILANTHROPY

When a Donor Becomes Tainted

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On March 12, 2008, Stephen Schwarzman, the cofounder and chairman of the private equity firm the Blackstone Group L.P., pledged \$100 million to the New York Public Library. The gift was the single largest donation the library had ever received, and the library will rename its main Manhattan building after him. A donation of this size is not an unusual occurrence. For generations, wealthy entrepreneurs have made pivotal donations to all kinds of nonprofits. When all goes well, wealthy benefactors give, and nonprofits name things after them—a building, a school, a program or hallway—and all is well. But what happens when a benefactor gets embroiled in a scandal after the donation has been made? How should a nonprofit react?

Consider this. On September 21, 2005, Queen's University announced that it would return a pledged gift of \$1 million from David Radler and remove Radler's name from a wing of the business school and from the university's benefactor wall. Why? According to the press release, "The integrity of the gift to the university had been compromised." The previous day, in a Chicago court, Radler pleaded guilty to one charge of mail fraud and was given a 29-month jail sentence and a \$250,000 fine. His alleged scheme diverted more than \$32 million from the sale of several newspapers that were controlled by Hollinger International.

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"How should a nonprofit react when a benefactor becomes embroiled in scandal?"

What would and should prompt a nonprofit to return a donation that has been accepted in good faith? This article considers the forces that prompt nonprofits to keep, reject, or compromise on a gift. It walks your organization through ways to sort through the "taintedness" of a donor and the potential forces that influence the decision to (1) keep a donor's money and name on a building; (2) return the donation and remove the name; or (3) adopt a compromise position.

Ultimately, the article helps your organization weigh the factors and determine the most appropriate outcome for the "tainted donor" scenario you face.

The Social Acceptability of Donors and Their Money

A tainted donor is a previously clean benefactor who has become socially unacceptable because of scandal. A tainted donation is money that was derived illegally or through a socially unacceptable manner. Donors and donations can be grouped into four categories.

The first category involves donations from individuals working within the law and following socially accepted standards of behavior. So the money and the donor are both socially acceptable. Presumably most charitable donations received by nonprofits—such as the gift by Stephen Schwarzman to the New York Public Library—fall into this category. Neither the donor nor the donation is tainted by scandal or social unacceptability.

The second category involves donations from tainted donors who give money that is apparently clean. These individuals generated wealth through legal and socially acceptable means but whose reputations have been tarnished by scandal. Real estate developer and philanthropist A. Alfred Taubman—who generously supported Brown University, the University of Michigan, and Harvard University—had his reputation tarnished when he engaged in price fixing as the chairman of Sotheby's auction house. Similarly Augsburg College changed its opinion of financial supporter Elroy Stock after he sent racist messages to mixed-race couples. Tainted donors, then, make acceptable donations (i.e., give nontainted money) but subsequently become embroiled in social or legal scandal.

The third category of donations involves those where the money and the donor are socially or legally suspect. This includes donors who engage in illegal activities, such as the Mafia and drug lords. Many, but not all, organizations are loath to accept such money. Mother Teresa, for example, willingly accepted donations from any source, including despots and unsavory political leaders. She argued that these ill-gotten gains had been used to aid the destitute in Calcutta. Bishop Ramón Godínez of Aguascalientes holds a similar view and asserted recently that while the Roman Catholic Church in Mexico does not knowingly accept donations from drug traffickers, he does not consider it the Church's responsibility to investigate the source of its numerous anonymous donations. The Royal College of Surgeons of Edinburgh accepted a donation from Dr. Hastings Banda when he was the dictator of Malawi. It seems that organizations that accept category-three donations consider that the money has no pedigree or history or that funds' pedigree and history are irrelevant.

In category four are clean donors who give tainted money. In 1996, for example, Gert-Rudolf Flick, the grandson of German industrialist Friedrich Flick, proposed making a donation to Balliol College to fund a professorship in European thought. Some argued that although Mr. Flick was not accused of wrongdoing, the money was tainted because he was the heir to an evil fortune. At the Nuremberg Trials, his grandfather was sentenced to seven years of imprisonment for using slave labor during the Second World War. The younger Mr. Flick eventually withdrew his offer.

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Strategic Responses to Tainted Donors

Now we will consider the strategy that a nonprofit should adopt when a previously screened donor who was considered acceptable becomes tainted—that is, when a donor moves from category one to category two. This shift occurs when additional information about a donor becomes publicly known and this new information alters the ex-post-facto perception of a donor. A move-ment from category one to category three or to category four may present a legal issue. It suggests that a donor was not legally entitled to make a donation. In 2001, for example, the University of Oregon returned an \$850,000 donation from financier Jeff Grayson after a court ruled that Grayson had donated money that was not his. And the government of Malawi has unsuccessfully tried to get the Royal College of Surgeons to return Dr. Banda's donation on the basis that the donation was made from public funds.

"When a previously honored benefactor becomes tainted, a nonprofit has three options."

In her article "Strategic Responses to Institutional Pressures," management scholar Christine Oliver outlines differing organizational strategies based on varying degrees of pressure. When pressure is strong, an organization is more likely to acquiesce; when pressure is weak, it is easier to defy. When pressure is moderate—that is, strong enough to induce a response but not so strong as to require compliance—the response may be to compromise. In the case of a previously honored benefactor who subsequently becomes tainted, a nonprofit has three options: it can return the donation and remove the public acknowledgement (acquiescence), keep the money but remove the public acknowledgement (compromise), or keep the money and continue to publicly acknowledge the benefactor (defiance).

Acquiescence. Queen's University said that while the Radler donation was given in good faith and in accordance with university-approved guidelines, the gift's integrity had been compromised. The money was returned and the donor's name was deleted from a wing of the business school. Other organizations have taken a similar approach. After Grayson was convicted of investment fraud, the University of Oregon returned his donation and removed his name from the law school. In 2004, after four years of debate, the

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Harvard Divinity School returned a much-needed \$2.5 million donation from accused anti-Semite Sheikh Zayed bin Sultan Al Nahyan and removed his name from an endowed chair in Islamic religious studies.

Compromise. In Pennsylvania, Villanova University's basketball pavilion was named in honor of a major donor: John Eleuthère du Pont, an heir to the du Pont family chemical fortune. But in 1997, after du Pont was convicted of murdering Olympic wrestler David Schultz, du Pont's name was removed from the building. The donation, however, was not returned. In 2004, Bill and Nancy Laurie—Nancy is the heiress to a portion of the Wal-Mart fortune—donated \$25 million to the University of Missouri—Columbia. The sports facility was to be named after their daughter Paige, who attended the University of Southern California. Paige was accused of academic misconduct and ultimately returned her diploma to USC. Meanwhile, her name on the arena was widely opposed by students, and the issue eventually aired on the news show 20/20. Three weeks after naming the facility the Paige Sports Arena, the university renamed the building the Mizzou Arena.

Defiance.¹ The Greenwich Hospital in Connecticut—the Leona M. and Harry B. Helmsley Medical Building—is named after hotelier Leona Helmsley despite the fact that Helmsley served 18 months in prison for tax evasion. The Rigas Family Theater at St. Bonaventure University is named for John Rigas, the former chairman of Adelphia Communications, who was convicted of conspiracy, fraud, and stealing money from the cable company. Buildings and schools at Brown University, the University of Michigan, and Harvard University are named after A. Alfred Taubman, the philanthropist and former chairman of Sotheby's auction house, who served a year in prison for price fixing.

So the question is, which conditions influence a nonprofit to adopt one of these three strategies over another?

Theory and Propositions

Stakeholder theory. Stakeholder theory contends that various parties have a stake in your organization; but some stakeholders have a more pressing relationship. According to management scholars Mitchell, Agle, and Wood, the degree to which managers give priority to competing stakeholder claims is a function of three attributes: (1) legitimacy, because the stakeholder claim is consistent with socially defined norms and standards; (2) power, because the claimant can influence the organization's behavior; and (3) urgency, because the claim is either time sensitive or critical to an organization.

The model of legitimacy, power, and urgency can be adapted to identify factors that influence management's decision whether to return a tainted donor's gift. A nonprofit's strategy will be a function of three factors: (1) the perceived degree of incongruence between the goals and nature of the nonprofit and the actions of the benefactor that lead to the scandal (legitimacy); (2) the extent of coalescence of demands of multiple stakeholder groups (power); and (3) the perceived visibility and timeliness of the scandal (urgency). Management is likely to ignore scandals that have only one attribute, it begins to listen when two attributes are present, and it is apt to address the situation when all three are present.

This model is dynamic and particularly useful in analyzing situations in which multiple stakeholders make conflicting demands on an organization. But the variables in this model are transitory. At any given moment, management may perceive one or more variables to be pressing. So the strategy that a nonprofit adopts is a function of the degree to which management perceives these three factors—value incongruence, coalescence, and visibility—to be present at that time.

Value incongruence. This factor involves the degree of compatibility between the norms, values, and actions of an external stakeholder with the core values, beliefs, and activities of an organization. Managers tend to respond more favorably when the values of an external stakeholder are compatible with an organization's goals and objectives. Incongruence occurs when a nonprofit's values and activities are inconsistent with those of a donor.

Mary Tschirhart notes that this incongruence manifests in two types. First, the values and norms of a donor may be inconsistent with the activities of a nonprofit. Tschirhart calls this an organizational legitimacy problem, and it occurs, for example, when a subsidized housing complex accepts a donation from a slum landlord or the cancer society accepts money from a tobacco farm. The second type, which Tschirhart refers to as a stakeholder legitimacy problem, occurs when the activities of a benefactor are not suited to the goals and values of a nonprofit.²

The degree of incongruence depends on the nature of a scandal. A hospital whose primary function is treating patients, for example, may see only a small gap between the core values of the hospital and a donor who has been convicted of tax evasion. But a business school that strives to elevate the ethical standards of future business professionals may consider a gift from a business executive who is subsequently convicted of fraud to be totally unacceptable. The degree of incongruence is a function of the nature of the scandal that taints a donor and the core values of a nonprofit. In other words, how incompatible are a nonprofit's goals with the action that tainted a donor? This is a stakeholder legitimacy issue; the greater the perceived gap between a donor's scandalous activity and the values of a nonprofit, the more likely a nonprofit is to return a donation and remove the public honor previously bestowed on a donor.

Proposition one: *The degree of value incongruence affects the strategy of a nonprofit when it learns that a previously honored benefactor has become tainted by scandal. A large, medium, or small degree of value incongruence is associated with an acquiescence, compromise, or defiance strategy, respectively.*

Coalescence. Nonprofits tend to have several stakeholders with inconsistent goals. As such, managers need to address conflicting demands and expectations. Balancing the demands of conflicting stakeholder groups becomes an essential part of a nonprofit manager's job. While it is easy to ignore the demands of conflicting stakeholder groups, managers must heed the demands of stakeholders who come together in a united fashion. Stakeholder power accrues when the interests of multiple constituents coalesce.

In the case of a tainted donor, this means that part of the decision-making process is to identify the relevant

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parties that claim that the donor is tainted. Does this accusation reflect the collective views of multiple stakeholders on whom the organization is dependent, or is this the lone voice of a demanding stakeholder? Tony Platt, an emeritus professor of social work at California State University, Sacramento, has waged a seemingly solo campaign to have his university disassociate itself from Charles Goethe, who was accused of racism. Goethe, who died in 1966, was a sizable donor to the university, and the arboretum is named after him. In contrast, Rachel Fish, a divinity student, organized a successful campaign to have the Harvard Divinity School return Sheikh Zayed's donation. She lobbied the school's administration, posted a petition on her Web site and solicited the support of the national media. In this example, the interests of numerous stakeholder groups coalesced, and through normative pressure, they influenced the decision of the organization.

"The greater the perceived gap between a donor's scandalous activity and the values of a nonprofit, the more likely a nonprofit is to return a donation."

Proposition two: *The degree of coalescence affects the strategy of a nonprofit when it learns that a previously honored benefactor has become tainted by scandal. A large, medium, or small degree of coalescence is associated with an acquiescence, compromise, or defiance strategy, respectively.*

Visibility. Academic Paul Nutt notes that nonprofits "do not have the luxury of keeping strategic decisions secret." When a previously honored benefactor becomes tainted because of an economic or social scandal, it often becomes front-page news. As such, a nonprofit cannot ignore the scandal in the hope that it will not become publicly known. On September 20, the media reported that David Radler had been convicted of fraud. The next day, Queen's University returned his donation and removed his name from a wing of the business school. The visibility of the debacle at the University of Missouri increased when 20/?20 covered the incident. In each instance, the organization reacted quickly to the issue because of its visibility.

Some issues are urgent because they are timely. Time measures the speed with which an issue becomes important. But as time passes, memories fade and a scandal may begin to lose its relevance and importance. In the past, some have claimed, for example, that the fortunes that established the Rockefeller Foundation and the Rhodes scholarships were tainted. But over the years, these institutions have become well respected;? no one lobbies against them today. During the 1950s and 1960s, Charles Goethe made sizable donations to Sacramento State University. Despite current appeals by Platt, the university, now more than 50 years after the donations were received, has not removed Goethe's name from the arboretum;? there is no urgency, timeliness, or visibility.

Proposition three: *The degree of visibility affects the strategy of a nonprofit when it learns that a previously honored donor has become tainted by a scandal. A large, medium, or small degree of visibility is associated with an acquiescence, compromise, or defiance strategy, respectively.*

Pressure-strategy link. Stakeholder theory argues that the stakeholder who gets priority is the one who has the greatest legitimacy, power, and urgency. Similarly, the pressure to return a donation and remove the honor bestowed on a beneficiary should be highest when incongruence, coalescence, and visibility are all perceived to be present. Further, there may be interaction effects. There was high-value incongruence at the Harvard Divinity School between the sheikh's gift to endow a chair in religious studies and the claim that he was religiously intolerant;? visibility increased when the media publicized the story, which resulted in the school receiving pressure from various stakeholder groups.

With fewer pressures, a nonprofit can more easily adopt a compromise strategy. After Augsburg College learned that Elroy Stock had sent racist messages to mixed-race couples, the college decided not to put Stock's name on a college building. In a fitting irony, rather than return the money, the college chose to use Stock's \$500,000 donation to support Scholastic Connections, a mentoring program that pairs students of color with alumni of color.

When the pressures exerted on a nonprofit are low or can easily be deflected, a defiance strategy is more likely. Alfred Taubman made generous contributions to Brown University. The Center for Public Policy and American Institutions is named after him. At the time of his gifts in 1984, Taubman had amassed his fortune as a real estate developer. The price-fixing scandal that led to his subsequent imprisonment in 2002 occurred much later, when he was chairman of Sotheby's Holding Inc. As a result, Brown University has not removed his name from these two centers, nor has Harvard University or the University of Michigan, both of which have buildings in his name. In this case, there is no value incongruence;? the donations were made when he was a real estate mogul, whereas the scandal that tainted him involves his capacity as the CEO of an auction house 18 years later. Further, no group of outraged stakeholders has coalesced. Because there is no pressure, it is easy for these universities to maintain the status quo and continue to publicly acknowledge him.

Proposition four: *The cumulative number of attributes due to value incongruence, coalescence, and visibility affect the strategy of a nonprofit when it learns that a previously honored benefactor has become tainted by a scandal. The perceived presence of one, two, or three of these attributes is associated with an acquiescence, compromise, or defiance strategy, respectively.*

Resource Dependency

The theory of resource dependency holds that organizations are constrained by their environment. They depend on others for the resources necessary for their survival. When deciding whether to return a donation, nonprofits are constrained by economic need and their commitment to a donor and a donation.

Economic need. Although mission traditionally takes precedence over economics in nonprofit organizations, financial issues cannot be ignored. If a nonprofit believes that there is a greater economic benefit from returning a tainted donor's gift than from keeping it, the organization is more likely to return the gift. The nonprofit, for example, may be in the middle of a fundraising campaign and the bad publicity associated with a tainted donor may jeopardize the success of the campaign. Keeping such a gift and/or retaining the public honor may send the wrong signal when a nonprofit seeks additional contributions.

Alternatively, a nonprofit may have a large endowment, and so it may be relatively easy to return the largesse of a tainted donor. There is often a direct correlation between the strength of the economic need of a nonprofit and the likelihood of a nonprofit's decision to keep a donation. If financial need is great, a donation will be kept. As economic need abates, however, a nonprofit may be more likely to consider a compromise position or even returning the money.

"Nonprofit organizations must be ready to react upon the revelation that the donor is tainted."

Proposition five: *Economic need affects the strategy of a nonprofit when it learns that a previously honored benefactor has become tainted by scandal. A small, medium, or large economic need is associated with an acquiescence, compromise, or defiance strategy, respectively.*

Organizational commitment. Commitment is the notion that a decision maker has a psychological obligation to behave in a manner that is consistent with the implications of previous decisions. Within an organizational setting, people become committed to strategies that they make on behalf of an organization. They become reluctant to alter their decision or to admit that they made an error. But organizational adoption and change are more likely to occur when changes in upper management take place, such as with the selection and removal of executives. The same principle applies to fundraising committees. When the composition of a fundraising committee changes, altering a prior decision often becomes easier. So too, it should be easier to reverse a decision and return a donation when an individual who initially obtained the donation is no longer associated with a nonprofit. It should also be easier to reverse a decision when the benefactor has no active involvement with the nonprofit (for example, the individual does not sit on a nonprofit's boards or committees). On the other hand, if a nonprofit has already named numerous different buildings, programs, or activities after the tainted donor, it is often harder to rescind an honor.

Proposition six: *The degree of organizational commitment affects the strategy adopted by a nonprofit when it learns that a previously honored benefactor has become tainted by scandal. A small, medium, or large degree of organizational commitment is associated with an acquiescence, compromise, or defiance strategy, respectively.*

Decision-making constraints. Two constraints—economic need and organizational commitment—act as moderating variables in the pressure-strategy link. In particular, the greater the constraints, the less likely a nonprofit will be to return a donation and remove the honor. A nonprofit is more apt to keep a tainted donor's gift (e.g., a defiance strategy) when the economic need of an organization is high and when there is strong commitment to a donor and a donation. But as these constraints moderate, it becomes easier for a nonprofit to adopt a compromise strategy (keep the money but remove the public recognition) or when the constraints are low to adopt an acquiescence strategy (return the money and remove the public recognition).

Being Prepared to Act

In the information age, organizational scandals do not stay quiet. Recent scandals within the business community of massive malfeasance have been well publicized. Many nonprofits have received largesse from the same business leaders who perpetrated accounting, financial, and economic scandals. As a result, nonprofit organizations must be forearmed and ready to react upon the revelation that a donor once perceived to be clean is now tainted. The model outlined in this article should help organizations in deciding which strategy to adopt.

NOTES

1. An organization can more easily pursue a defiance strategy when it has not yet recognized a gift. Mississippi College, for example, accepted \$45 million from Bernard Ebbers, the convicted former chairman of WorldCom. But the college did not name a building, school, or program after him. Nor has the college returned the donation.
2. An inappropriate action can occur when a donor is accused of a horrendous crime. The Welsh Language Society reversed its decision to accept £100,000 from John Owen after it was revealed that, over the course of a 10-year period, Owen had sexually abused children.

About the Author

Paul Dunn, Ph.D., is an associate professor of accounting at Brock University in Canada.

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