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*Approved by ALDE Board, September 17, 1999*



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Musings: ALDE's Code of Ethical Principles and Practices  
*Compiled 10/2002*

## 1. Seek to serve Christ faithfully and hold His name as supreme

### **Christ central in our ethics**

*Rev. Thomas L. Jolivette, President, Waldorf College*

It hardly seems necessary to include such a statement in ALDE's Code of Ethics. As Christian people, one would assume that we are ethical people. One would also assume that the ministries for which we work would be above reproach in their ethical expectations and that we attempt to live out our faith in ethical service to God and each other. That is likely the truth.

We do strive to make ethical and Christ-centered decisions as we work with donors and organizations. Yet it is important that we crystallize the centrality of Christ in our ethics.

Have you ever presented a theological or ethical question to a group of five or ten Lutheran development professionals and heard total agreement? That would be a rare occasion. Our experiences in life, our understanding of God's work in our world, our *Sitz im Leben* (our situations in life) inform each of us. It is possible for two Lutheran Christians to be on complete opposite sides of an issue and both remain Lutheran and Christian in their views. Two Lutheran Christian development people could come to quite different decisions on ethical issues and both base their decisions on their Lutheran and Christian understandings.

If "Seek[ing] to serve Christ faithfully and hold[ing] His name as supreme" doesn't ensure that all of our decisions will be uniform, why include it in our Code of Ethics? We need this statement precisely because we will make differing decisions.

Despite our conclusions on issues, the one principle that unifies us and our decision-making is that we do all in the name of Christ. It is the name of Christ that empowers and unites us. It is in the name of Christ that we make our ethical decisions and work with each other.



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## 2. Work for the best interest of the donor

### **To Exchange or Not to Exchange-That is the Question!**

*John F. Schoedel, CFRE, Concordia University at Austin*

In December 1999, the Minnesota Attorney General, Mike Hatch, filed suit against Minnesota Public Radio (MPR) for using deceptive fund raising techniques. The basis for the suit was that MPR had exchanged their list of donors with over 100 organizations during the last five years.

MPR's response was that it would "vigorously defend" itself against this lawsuit. They stated they had told their donors that their names would be shared "occasionally" with other organizations. If the donor did not want their name shared, it wasn't. On average, MPR further reported, a donor's name had been shared approximately six times a year. To MPR, in their lexicon, this was "occasional."

This case has generated discussion in the non-profit world about the appropriateness of list exchanges. There appears to be no clear-cut answer and development professionals hold differing views. Why would any organization choose to exchange its donor list with other organizations?

Those who exchange lists say that the purpose of a list exchange is to find new supporters for an organization. They cite studies that indicate that donors support an organization for about seven years. Other donors die or cease supporting the organization for many reasons. Therefore, there is always a need to replace those lost. A list exchange is seen by some as an acceptable way to obtain new supporters.

Indeed, finding a source of new names for your organization's prospect list is the crux of your list's future. To find new supporters, many prospecting activities are used. Those who use list trades as one of their methods of prospecting suggest that an organization trade lists only with an organization that has donors with similar characteristics, demographics and especially giving attitudes. They stress that list trades, when done with similar organizations, do generate new supporters even though the only "contact" is through the direct mail direct response (DMDR) prospect letter.

Proponents of list exchanges also argue that the more people know about your organization - know why you exist and what you are accomplishing - the more you will have the supporters necessary to keep your organization dynamic and able to rise to each new opportunity that our Lord places before them. However, some argue that sharing a donor's name might not be in the donor's best interest, thereby violating the second principle of ALDE's Code of Ethics - "Members will work for the best interest of the donor."

*(continued)*

***Ethics Musings: To Exchange or Not to Exchange-That is the Question!***

*John F. Schoedel, CFRE – Page 2*

Some also say that the fifth principle of ALDE's Code regarding donor confidentiality is violated by exchanging lists. They ask, "Do list exchanges maintain confidentiality in handling donor and prospective donor records as ALDE members promise to do?"

What becomes important then is our relationship with our donor. If we know that a donor who practices Biblical stewardship does not want to receive "new" fund raising letters from other organizations, we are clearly not working in the best interest of our donor if we trade their name. We also may know that some on our lists gripe about each new letter they receive and should be excluded in any list exchange. If on the other hand, we have a donor who practices Biblical stewardship and truly wants to make a difference everywhere he or she can, sharing their name may be a valuable way for them to connect with other organizations. There are many donors who use these prospecting letters as a way to keep up with what is going on.

Each of us has heard opinions from donors, prospects and our colleagues on this issue. Ultimately, the answer as to whether exchanging lists violates a donor relationship in any way is one that each organization must decide.



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### 3. Strive to model and promote the concept of Christian stewardship among donors and ALDE professionals

#### **Is there more to our work than getting money out of people?**

*Dr. Ron Beckman, CFRE, Director of Church and Community Relations, Martin Luther Home Society*

A little boy swallowed a quarter. His sister Mary cried, "Call the doctor, call the doctor. Billy swallowed a quarter!" Her brother John responded, "No, let's call the pastor."

"Why the pastor?" Mary asked.

"Well," John replied, "Uncle Henry says that if the pastor can't get money out of you, nobody can!"

Unfortunately, for many people fund raising and gift planning is considered little more than "getting money out of people." From the perspective of biblical Christian stewardship, nothing could be farther from the truth.

The Lord's parable of the ten talents (Matthew 25:15, 24-30) is often used to teach Christian stewardship. It teaches that we should wisely invest the talents God has put into our care and make use of our gifts and abilities for His purposes, and His kingdom.

Ethically speaking, stewardship is the guiding principle of gift planning. It is the philosophy and means by which an agency or institution exercises ethical accountability in the use of contributed resources and the philosophy and means by which a donor exercises "responsibility" in the use of God-given resources.

#### **Ethical accountability**

Institutional stewardship begins with the efficient management of all resources in our care. It is sometimes said that social ministry organizations and other not-for-profits often fail to manage as efficiently as their for-profit counterparts.

Being socially minded or charity driven does not give us license to be poor managers. What motivates the gift planning professional of an organization in approaching prospective donors? Does the attitude of "getting money out of people" at whatever costs prevail or is there a genuine desire to proudly lift up the case or ministry as worthy of support, while listening to the interest and intent of the donor?

We have an ethical responsibility to accurately account to all of our stakeholders the handling of their contributions. Have we honestly and openly shared the results of our appeal efforts or deceptively reported to the public only the successes to make us look good?

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### **Response-ability**

Individual donors, by placing their trust in us and our institution, are generally seeking to be good stewards and managers of that given to them. As Christian gift planning professionals we can assist them in expressing their response to the blessings they have received. How refreshing it is to witness and assist those who have grasped the biblical message that we are "blessed to be a blessing."

Some fundraisers have been successful in "getting money out of people" by legalistically emphasizing the responsibility of giving. You can motivate by guilt, but there is a better, more biblical and ethical way.

As Lutheran professional gift planners we can practice the "grace of God" we preach. We can demonstrate that we have "response-ability"; the ability to respond to God's goodness and gifts.

Finally, recognition of faithful stewardship not only encourages continuing support to a responsible organization, but it also provides an opportunity for us to educate others in the joys and blessings of sound biblical Christian stewardship.



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#### 4. Portray accurately the institutional mission in all communications

##### **Mission Minded**

*Rev. David Larson, Vice-President of Resource Development, LSS of Wisconsin and Upper Michigan*

They have it plastered everywhere! It's on the walls of their buildings, the visors of their cars, on note pads, on annual reports, on stationary, on cards in their wallets and most importantly, it is in the forefront of their minds.

What is this? It is the mission statement of your organization.

A few years ago one of the more influential and important movements in the nonprofit (and for-profit!) world was the establishment of a clear and focused mission statement. It helped organizations and their supporters understand who they were and what they did. In recent years it spawned the development of the "Vision Statement" (where you want to go, what you want to become) and the "Core Competency" (establishing with one to three words what it is that sets you apart from all other organizations like yours). But at the foundation of it all is the mission that defines who we are and what we do.

For fundraisers it is extremely important to articulate the organization's mission clearly and accurately to the donor. If our message is at odds with the core mission, it is a disservice to our donors. Donors who do not clearly understand the mission to which they give will feel betrayed and/or manipulated when the end results meet neither their expectations nor their ideologies. As a result, future fundraising efforts will have to overcome this lack of trust or find new resources. It also means that potential donors who would normally empathize with the core mission of the organization might not be reached. Neither of which we want!

Donors are becoming more and more interested and savvy as to who we are and what we do. They want to know how their gift is being used and how it enhances and fulfills the mission. It is to everyone's advantage if the mission is crystal clear and sharply focused.

As development officers, we are in a unique position to help our organization examine its mission statement and tweak it if necessary. An effective mission statement is easily remembered and accurately reflects the actions of the organization. It could be a good exercise to regularly start your staff meetings with a review of the mission statement. It might also be helpful to regularly examine your printed materials to make sure that the mission is clearly stated. Plaster your mission statement everywhere so that it becomes a comfortable and regular part of your message.

When we stay consistent with our mission, and when we tell the marvelous stories that our mission has enabled in our organization, we do the donor a service. Those donors who are caught by the fire of philanthropy will respond to the message and joyfully support your good work. In these efforts we are simply reflecting Jesus' clear mission of service and building on the foundation he first modeled for us.

Grounded in our mission let us together move boldly into the future!



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## 5. Maintain confidentiality in handling donor and prospective donor records

### First Priority: Protecting Donor Privacy

*By Sandra Potts-Eklund, Regional Director of Resource Development  
LSS of Wisconsin and Upper Michigan.*

John Doe has just returned to the office after visiting a donor. The donor, a long-time friend of the organization for which John works, has shared a great deal of personal information. He talked about family and business troubles, including wise and not-so-wise business decisions. He also shared with John information about personal and business connections with the organization. Possible ways to invest in the organization's future were also discussed. When John returned to the office, he spends a great deal of time entering much of the conversation into the case file.

As development executives, each of us regularly enters into privileged relationships with donors and potential donors. People share a great deal of information with us, some of which is very personal and private. You may remember such instances: the lonely widow who shared her latest health concerns, the elderly bachelor who told you about his family's history, or a couple who shared intimate information about their financial status. Like John, we must make decisions about what information is recorded in a donor's file and what information is best left out.

All of us realize the importance of keeping records that document our work and information pertaining to specific donors. Documentation must include significant personal details that characterize the donor situation and explain the basis for decisions. At the same time, documentation must protect the donor's privacy and avoid redundancy. When entering data into a record an important question to ask is, "What significance does this information have to the desired outcome?"

Confidentiality implies confidence and trust. Confidentiality safeguards personal information that the donor reveals in the context of the professional relationship and limits the flow of information out of the organization. It is the primary means through which we protect the donor's privacy. We can enhance confidentiality when our organizations establish and enforce policies that prohibit inappropriate or unnecessary disclosure of information about donors. One simple way to do this is for the organization to limit who has access to the development records.

ALDE members profess that they will "maintain confidentiality in handling donor and prospective donor records." This principle guides us in deciding what is appropriate to record in donor records, and can also help us (and our organizations) establish policies about who has access to donor records and with whom information should be shared. Protecting donor privacy is indeed a high priority in our work.



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## 5. Maintain confidentiality in handling donor and prospective donor records

### Article Review: "The Perils of Philanthropy" by Joan Szabo

#### *Staff meetings can be perfect time for ethics training*

By Sandra Potts-Eklund, Regional Director of Resource Development  
LSS of Wisconsin and Upper Michigan.

Author Joan Szabo in her article, "The Perils of Philanthropy" published in Currents (No. 24, January 1998), suggests the use of ethics training to help one's staff identify and address potential problems before they occur.

She uses a case study of a problematic gift to get her point across. "Multimillionaire John du Pont pledged a substantial sum to Villanova University athletics causes--so substantial the university named a 6,500 seat sports pavilion for him in 1985. But in January 1996, du Pont shot and killed an Olympic wrestling champion...He was judged mentally ill but also guilty of the crime 15 months later." The university faced an ethical dilemma: Should du Pont's name remain on the building?

Szabo states that in a great majority of cases, gifts are not fraught with danger. However situations that pose ethical questions do arise. What if a donor goes from famous to infamous overnight? Where is the line between donor control and institutional autonomy? How far do you go to recognize an unfulfilled pledge?

The development staff's awareness of ethics needs to be raised to get a head start on how to handle questionable situations that may arise. Here are some common approaches:

1. **Talk over the issues.** Discussion at staff meetings of gifts in progress and the ethical ramifications attached to each is an excellent mechanism to help see all sides of an issue. The goal of such discussions is to make the staff comfortable with thinking problems through. They should never feel pressured to accept a gift at any cost.
2. **Use case studies for a trial run.** Using case studies can provide a non-threatening way to discuss ethics. Putting aside 15 minutes at staff meetings to discuss case studies is a mechanism many managers utilize. Although it is beneficial for staff to openly discuss there various perspectives, in the end they must be clear on the organization's policies.

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3. **Write ethics policies so you can go by the book.** "Written policies can't address every possible situation," says Szabo, "but they can give your actions coherence and explain the logic that should govern decisions on any specific gift." Issues around which guidelines can be developed include prospect confidentiality, donor premiums, endowment administration, naming of a building or a room, counting or recognizing pledges and gifts in kind.
4. **Follow the leader.** The person to turn to if a policy is unclear or if a final decision must be made is your CEO. The mission of the organization must be served well by the financial gifts it receives. In some situations, the CEO is the one person who can best assess the total impact of a gift.

Organizations can conduct their own ethics audit. The following questions, which are based on work by the Ethics Resources Center in Washington, D.C., are an excellent place to start a conversation.

1. **Know your values.** Do you have clearly articulated vision and mission statements? Is there a gap between the values of management and staff members?
2. **Communicate your values.** If you ask your staff, donors and others what your institution stands for, what would they say? Do you regularly articulate your institution's values through your communication channels?
3. **Know to whom you are accountable.** Who are your stakeholders----the board, staff, administrators, donors, alumni, students, others? Do their values differ significantly from your institution's values?
4. **Define your success ethically.** How does your organization define and measure its success? What incentives do you offer? What effect do they have?
5. **Make ethics important to your organization.** Is ethics a factor in the hiring, promotion, and termination of staff at all levels? Do you have procedures in place for employees who need to ask an ethics question or report a concern?

In the end according to Szabo, making ethical considerations a key part of your routine will keep most problems at bay.

*"The Perils of Philanthropy" and other articles focusing on ethical issues can be found in a bibliography developed by the Ethics Committee. The bibliography is available through ALDE at (800)458-2363 or at [www.alde.org](http://www.alde.org).*



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## 6. Offer public recognition and appreciation for a gift only after donor permission has been granted

### **Do you wish to retain donors?**

*Michael N. Fischer, CFRE, Lutheran Church Extension Fund*

This is a very simple question with an obvious answer. Yet, one of the most significant mistakes that well-meaning development officers make is recognizing or giving notoriety to donors without their permission. Upon seeing this or hearing about it from the donor, other donors may be reluctant in their response to any invitation to financially support a charity. This act alone can be one of the quickest ways to diminish a charity's donor base.

Often development officers are motivated by raising up donors in front of the charity's constituency with the hope that this "giving testimony" will encourage others to act likewise. Before walking down this path, it would go well for development officers to practice the words of wisdom given to elementary students years ago when approaching a railroad crossing: "Stop...Look...Listen."

### **STOP**

Before a development officer pursues the path of recognizing a donor, it would be prudent to temporarily suspend any activity toward this end. Donor recognition can take on many different forms. It is appropriate to take time to focus or refocus on what is intended with the plans for recognizing the donor.

### **LOOK**

Now that "recognition" activity is stopped, it is wise for a development officer to go back to any anecdotal information on the donor to obtain good insight about the donor's heart and motivation. Proper files and records should be maintained on all donors. It is helpful to look at what the donor has said and done in past interactions with development personnel and the charity.

### **LISTEN**

After reviewing the files, it would serve the development officer well to personally visit with the donor. This visit, whether by phone or in person, should focus on obtaining the donor's permission to recognize the giving act. Discovering the acceptable manner to recognize the donor will enhance the relationship. Proper written authorization is suggested, especially for elder donors and those who are eccentric.

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## **TWO ANCILLARY ISSUES**

The topic of securing donor permission for recognition addresses two ancillary issues: Donor motivations and donor privacy.

- **Donor Motivations**

A recent study determined that donors usually give on the basis of one of six different motivations. Only a few of these six motivations have any degree of a donor seeking recognition. Based on this study, some donors may be reluctant to receive public recognition. Knowing and respecting what motivates the donor are two key components of raising the relationship with that donor to new heights.

- **Donor Privacy**

In today's society there is a rise in gated communities, caller ID, scrutinizing software and revocable living trusts. It appears that people appreciate their privacy and go to some length to protect it. Development officers should be empathetic toward donor views when approaching the topic of recognition. Giving is a deep-rooted conviction and one that some donors wish to keep private.

## **CONCLUSION**

Lifting up donors as an act of appreciation and/or as an act of motivation for others is appropriate. Knowing the giving motivation of the donor and their sense of privacy will serve the development officer well. Two common ways of recognizing donors are the listing of names or special events. Implementing these practices, or others, without the donor's permission is a breach of trust. A wise development officer will "Stop...Look...Listen" when walking down this path.

It is true that donors appreciate being thanked and many times are willing to let their act of giving be a testimony to others. Ascertaining their permission (preferably written) will go far in maintaining and building the special relationship that exists between the donor and the charity. Besides, it is the right thing to do.



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## 7. Ensure accurate use of designated gifts, optimal management of all solicited funds, and truthful reporting

### **Truthful, accurate reporting - communication is vital**

*Lois Natarajan, CFRE, Director of Development, Baltimore Lutheran School*

Communication! Communication! Communication! It's the key to complying with the seventh principle in ALDE's code of ethics. Communication with the donor before and after the gift is vital.

How is donor intent safeguarded? Clear, written documentation is the key to understanding the donor's intent, otherwise the gift and/or relationships with donors can be jeopardized. This can be accomplished with something as simple as a pledge card or as intricate as a legal document.

Is it possible for the institution to honor the donor's wishes? Certainly, the gift should not be accepted until the administration, the development office, and the business office have agreed that the donor's gift will be used as designated. This may involve some additional behind the scenes work before the gift is finalized. One way to avoid misunderstandings is to have clearly written gift acceptance guidelines. How will the donor be recognized? Does the donor want to remain anonymous? Is there a naming opportunity? How are matching gifts designated? Communication with the business office is crucial if the donor's wishes are to be carried out after the gift is in place. This relationship is like a partnership - working together to assure that the donor's wishes are carried out and the institution is the beneficiary.

What process is in place to assure that the business office knows whether a gift is undesignated or is designated for a particular project or purpose? Prior discussions with them concerning the coding of gifts can eliminate errors in how funds are ultimately used. This is an ongoing process and requires follow-through. (You should be best of friends in no time at all!) Communication through the Annual Report is the third piece of the puzzle for gift documenting and reporting.

What safeguards are in place so that gifts are not reported twice? How are unpaid pledges and campaign pledges in progress reported? Are they included with cash gifts or separated? How do you keep track of revocable gifts? Should they be reported at all? Is it ethical to consider a gift of a life insurance policy that may not mature for many years in the same way you would consider a cash gift? How do you value a deferred gift? A decision should be made whether a deferred gift is reported at face value when initiated or when it actually matures in order to make sure it is not reported twice.

Communication, consistency, and accuracy are the key ingredients in reporting gifts in a conscientious manner - and complying with the seventh principle of ALDE's Code of Ethics. Note: The Council for Advancement and Support of Education (CASE) has published two editions of *Fund-Raising Standards for Annual Giving and Campaign Reports*--one for colleges, universities and schools and the other for not-for-profit organizations in general--that offer guidance on this issue.



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## 8. Comply with all federal, state, municipal and/or provincial laws

### **Twelve Words: Members will comply with all federal, state, municipal and/or provincial laws**

*R. Stephen Wheatly, JD, Director of Estate and Gift Planning, California Lutheran University Education Foundation*

On its face, this eighth ALDE principle (all 12 words) seems simple enough. But as development professionals, have we really thought about its broad implications and the responsibility and liability of compliance? Consider that any type of gift potentially involves a variety of different federal and state rules and regulations:

- What is a charitable gift and what is not?
- When is a contribution deductible?
- What are the reduction rules and the percentage limitations?
- How are charitable gifts valued?
- What are the substantiation and disclosure requirements?

Add to the mix Internal Revenue Code (IRC) sections regarding income, Alternative Minimum Tax (AMT), gift tax, generation skipping transfer tax (GST), and estate tax. How do these issues apply differently to donors and beneficiaries?

Complicate the matter further with the vast number of Treasury regulations, Revenue rulings and procedures, Private Letter Rulings, the Employee Retirement Income Security Act (ERISA), Securities and Exchange Commission (SEC) and Federal Tax Court decisions. Now include each state's laws and regulations regarding real estate, community property, trusts, probate, principle and income and insurance.

All of these codes, statutes and cases have interplay among and between them creating opportunity for error even for the most seasoned development officer. It is not uncommon for individuals interested in making lifetime or testamentary gifts to be without legal, tax or financial counsel necessary to effectuate this intent. It is also not uncommon for the recipient nonprofit organization to provide information, analysis and counsel.

When the development staff of a nonprofit organization consults with prospective donors regarding the potential means of accomplishing their gift intentions whether outright, testamentary or through the use of a life-income arrangement, the staff has arguably entered into specialty areas that are beyond their expertise. In the event that nonprofit development staff elect to provide donors with assistance and information regarding the potential benefits, cost and expectations of a charitable gift, it is imperative that the nonprofit organization develop and adhere to written guidelines designed to manage the associated risks.

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**Twelve Words: Members will comply with all federal, state, municipal and/or provincial laws**

*R. Stephen Wheatly, JD – Page 2*

Adherence to well thought out and documented guidelines will not guarantee the avoidance of situations where the nonprofit has exceeded its expertise. However, they minimize the risk and maximize the chance that such improper advice or counsel will be addressed at a point before real damage is done.

In order to properly effectuate these guidelines, it is important to remind and update staff regularly. Active risk management, as well as understanding the areas of concern, is crucial to protecting gifts, donors, and the organization's tax exempt status.

The interaction and consultation with our donors in connection with their gifting desires is a necessary part of our fund raising activity. The activity itself is appropriate so long as sufficient safeguards are employed. Merely stating that we abide by the eighth principal of ALDE's Ethics Code is insufficient. As the development profession continues to grow in complexity, there are greater risks for error that must be proactively and contiguously managed.



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## 9. Deal charitably, fairly, and honestly with other professionals and organizations

### **Good relationships with other professionals is a matter of ethics**

*Rev. Thomas L. Jolivette, CFRE, President, Waldorf College*

Our work as development professionals is focused on donors - more specifically, helping donors achieve their charitable goals. In turn, helping donors helps each of our organizations succeed.

Sometimes though, it is easy to put the needs of our organization rather than the needs of the donor first. When working with a donor with multiple interests, we may be tempted to put down other organizations or their representatives in order to receive a larger piece of the pie. "XYZ doesn't need your gift. They have so much money they don't know what to do with it. We, on the other hand, would make good use of your gift."

As development professionals, we are not in competition with each other. Rather, we are to work cooperatively in helping donors achieve their charitable goals. Likewise, it is important to remember that donors have multiple advisors - attorneys, financial planners, insurance agents, and other development professionals. Working cooperatively with these professionals also helps the donors.

When working with donors, it's best to think TEAM. Just by asking your donors, "Are there other professionals we should be talking to?" speaks volumes about your integrity. Whether they are allied professionals or other development professionals, working "charitably, fairly and honestly" with these professionals will advance the goals of the donors.

Why not be proactive in fulfilling the ninth principal of ALDE's Code of Ethical Principles and Practices? Develop a plan in your organization for working with other professionals. Put it on paper and share it with other advisors you commonly work with. Let donors know that you work cooperatively for their best interest.

A good working relationship between other professionals and their organizations will help donors achieve their goals. We honor our donors and other professionals by our cooperation and good working relationships.



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**10. Maintain and encourage high levels of professional competence and accurately present professional qualifications and experiences to prospective donors and employers**

**ALDE members make annual commitment to code of ethics**

*John F. Schoedel, CFRE, Concordia University at Austin*

Each year as individuals renew their membership in ALDE, they are asked to sign the Code of Ethical Principles and Practices. Renewal notices are sent each October.

"ALDE's Ethics Committee encourages you to take this opportunity to review the code and your commitment to it," says [former] Committee Chair Stephen Wheatly, J.D., director of estate and gift planning at California Lutheran University Education Foundation. "We also encourage you to recommend to your organization's CEO and/or Board of Directors that they adopt the Code as guiding principles for the organization and its staff and volunteers."

As an educational service to members, the Ethics Committee is available to respond to member's questions about ethical issues in resource development. If a situation or issue causes one to wonder about possible ethical implications, you are invited to refer your question to the committee via the ALDE office. A committee member will respond to you with the results of its research within the available literature on the topic.

A listing of members of ALDE's Ethics Committee can always be found on the ALDE Web site.



Association of Lutheran Development Executives  
PO Box 930303, Verona, WI 53593 • www.alde.org

Musings: ALDE's Code of Ethical Principles and Practices  
Compiled 10/2002

## 11. Be compensated by a salary or contractual fee agreement, not by fees based on a percentage of charitable gifts secured

### Percentage-based Compensation Prohibited

*Cheryl Grasmoen, JD, Director of Charitable Giving Services for Lutheran Community Foundation*

*Lutheran High School is embarking on a concerted effort to increase endowment giving. Although the school's fund raising consultant has recommended that the school hire a development officer, the Board of Trustees is hesitant to tax its already stretched budget with another professional salary. One trustee suggests that the position be structured with a low base salary plus a bonus equal to a percentage of the gifts raised. He argues that this protects the school in the event that the fund raising effort is not effective.*

From a purely economic viewpoint, basing a fund raiser's compensation on funds raised makes a lot of sense. Why does the ALDE Code of Ethical Principles and Practices prohibit it?

The key words are self-gain, public perception and donor trust.

If this type of compensation were to become the norm in development work, a vicious cycle could result. Although in most cases the personal integrity of the fund raiser would ensure that no abuse occurred, there would undoubtedly be an increase in the number of cases of abuse where self-gain was so closely tied to the gift. As the number of abuses occur, the public perception of the ulterior motives of fund raisers, as well as stewardship of the gift, would be negatively affected. Consequently, the process of building and maintaining a relationship of trust between the donor and the fund raiser, and ultimately, between the organization and the donor, would be more difficult.

Self-gain can quickly outrank the organization's charitable mission and the donor's best interest if the fund raiser's financial well-being rises and falls with the amount of the gift. Pushing a little harder, promising a bit more, working for the immediate gift instead of a deferred gift (even though it may not be in the donor's best interest) are all very human and predictable behaviors with this type of system. Hoping for a big hit, the fund raiser may allocate too much time and effort to the potential major donors to the detriment of building a broad donor base of all ages and income levels committed to the mission of the organization. And what a windfall for the fund raiser at the organization's expense, if a long-contemplated gift happens to occur during his tenure.

*(continued)*

## Percentage-based Compensation Prohibited

Cheryl Grasmoen, JD – Page 2

Public perception of the conduct of fund raisers affects all of us in the field. If that perception were adversely affected by even a few notorious cases, relationship building would be more difficult for all of us. Relationships of trust between the donor and the fund raiser, and between the donor and the organization are essential. Donors assume that their entire gift will support the work of the organization, not be diverted in part to the pocket of the fund raiser.

Article 11 of the Code that prohibits percentage-based compensation keeps the emphasis where it must be--on the charitable purpose of the organization.

*Note: Recent revisions in the National Society of Fund Raising Executives'\* code take the issue of percentage-based compensation one step further. The NSFRE\* code now also prohibits giving such compensation. The revised statement now reads, "Members shall not pay, seek or accept finder's fees, commissions or percentage-based compensation for obtaining philanthropic funds and shall, to the best of their ability, discourage their organizations from making such payments."*

*[10/2002: NSFRE is now called the Association of Fundraising Professionals (AFP)]*



## 12. Avoid or otherwise disclose all potential conflicts of interest

### Conflict of interest? Answers not always simple

*Cheryl Grasmoen, JD, Director of Charitable Giving Services for Lutheran Community Foundation*

ALDE members have signed the Code of Ethical Principles and Practices indicating they "...will avoid or otherwise disclose all potential conflicts of interest." In light of this, the Ethics Committee asks ALDE members, "Do the following situations make you uncomfortable?"

\* \* \* \* \*

*In preparation for Lutheran Camp's annual fund drive, Dennis, the development officer leading the drive, contacts his cousin who is in the "trash and trinkets" business for prices on donor gifts. The quotes sound reasonable and he places an order.*

\* \* \* \* \*

*Because of his reputation as an effective fund raiser with high ethical standards, Tom, the development officer at Lutheran Retirement Home located in a small Midwestern town, has been asked by a local Lutheran college to volunteer to head up a major capital campaign.*

\* \* \* \* \*

*Over a period of several years of working with a donor, Mary, the development officer at Lutheran High School, has formed a close, personal relationship with the donor. Although Mary agreed to be named as executrix in donor's Last Will and Testament, she was pleasantly surprised to learn upon the donor's death that she was included in the Will and, along with Lutheran High School, will receive a monetary bequest.*

\* \* \* \* \*

These situations share a common element - a potential conflict of interest. Unlike some professional codes of ethics, the ALDE code does not define "conflicts of interest." There are advantages to this approach. We avoid absolute prohibitions of conduct that might be acceptable in unusual circumstances. We also avoid the implication that certain behavior is acceptable simply because it is not included in a laundry list of unethical behavior. On the other hand, the disadvantage of a general mandate to avoid conflicts of interests, or to disclose them, is that we must trust that ALDE members will be perceptive in identifying conflicts and will exercise good judgment in acting appropriately.

*(continued)*

In each of the above fact situations, there is a potential conflict of interest. For Dennis, it is getting the best deal for Lutheran Camp versus benefiting his cousin. For Tom, it is using his best efforts to raise money for his employer, the Lutheran Retirement Home, while being expected also to use his best efforts to raise money for the local Lutheran college. And for Mary, it is representing the best interests of the donor's estate while representing the best interests of herself and Lutheran High School.

One might argue that no ethical violation exists: Dennis' cousin may be offering goods to the camp for a price equal to or less than any other vendor. Tom may be perfectly capable of vigorously raising funds for the college without impairing or affecting his efforts for the home. Mary may be a logical choice for executrix in the donor's opinion and may have developed a genuine personal friendship with the donor that the donor wishes to acknowledge in her will. But if we set aside this inside information about these folks and look at the situations with the eyes of the public and our donors, a very different picture emerges.

First, let's consider Dennis' situation. As a good steward of the camp's resources, Dennis has the duty to get a fair price on the "trash and trinkets." Assume that Dennis has researched the market and concludes that his cousin is offering the best price. But, let's apply the ultimate test...public scrutiny. How does it look to donors and the public when a charity's business goes to the fundraiser's family or close friend? Remember that the public won't be aware of Dennis' market research. Is there not an appearance of impropriety? Would disclosure help? Certainly Dennis must disclose the conflict of interest to the camp's governing board. But consider whether the economics of the situation plus the Board's approval are sufficient to protect against the negative image of a charitable organization that directly benefits family members of employees in this manner. This sort of back-scratching has led to very strict conflict of interest policies in many private and public organizations.

The appearance of impropriety is much clearer in the case of Mary, and exists in both cases - if she accepts the role of executrix for a donor or if she accepts a bequest. Although genuine friendships between development professionals and donors commonly form, developing and maintaining the relationship were parts of Mary's job. The purpose of the relationship was to benefit the high school, not to result in personal gain to Mary.

One of the painful aspects of working in development is becoming aware of the loneliness and vulnerability of some older donors. To the public, Mary's involvement in the estate as executrix or her acceptance of a bequest may look like exploitation of a relationship that was not intended to be personal, and calls into question the integrity of Mary's organization as to how it obtains bequests. To some observers, especially the donor's family and friends, the question of undue influence by the charity arises when a charity that is named in the will, or an employee of the charity, is also executor of the will. To most observers, the development officer who is named in the will has impermissibly crossed the line.

*(continued)*

Although Tom's situation may not have the same degree of appearance of impropriety, there are a number of troublesome questions. Is it possible for Tom to conduct his work for both charities without divided loyalty? Is he capable of raising funds for the college as a volunteer without diminishing or impairing his efforts for Lutheran Retirement Home, his employer? For example, if a donor to the home appears on a list of potential donors to the college's capital campaign, can he justify asking for a gift to the college that could affect future amounts received by Lutheran Retirement Home? Will he be comfortable asking the same donor for gifts to both charities? We know that fundraising success is often due to the relationship between the donor and the fundraiser. Can Tom resist using relationships developed in his role as fundraiser for the home to benefit the college, even though some of those donors may be willing to make gifts, not because of commitment to the college but primarily because of their regard for Tom? In a community where donor prospects are limited, the temptation will be great. Can Tom use information about donor prospects that he has accumulated in his role as fundraiser for Lutheran Retirement Home? What is confidential? What is proprietary? Does the home "own" the information gained by Tom as an employee?

The ways these situations are resolved by the development officers reflect not only upon that individual and his or her organization, but contribute to the image of the profession as well. So how should a development officer approach a situation that may involve potential conflicts of interest? Here are some suggestions:

1. Talk about the situation with a respected colleague in the development field.
2. Think of the sound bite-how would your donors, supporters, and constituents react to reading about it in the local newspaper?
3. What is the highest ground you can take? If we hold ourselves to the highest standards, sometimes we lose advantage, suffer inconvenience and sacrifice personal gain. But the result is integrity, and the payoff is enhancement of the reputation of our profession and our organizations.



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**PROCESS FOR ADDRESSING ALLEGATIONS OF UNETHICAL CONDUCT**  
Approved by ALDE Board, September 17, 1999

ALDE's Ethics Committee celebrates the fact that ALDE members annually sign the Code of Ethical Principles and Practices and encourages members to be perceptive in identifying potential conflicts of interest and diligent in exercising good judgment in acting appropriately.

***Matthew 18:15-20:***

"If another member of the church sins against you, go and point out the fault when the two of you are alone. If the member listens to you, you have regained that one. But if you are not listened to, take one or two others along with you, so that every word may be confirmed by the evidence of two or three witnesses."

**Objective:** To provide a process for addressing a member's allegations of unethical conduct on the part of another member in a manner that heals divisiveness and promotes unity within our Christian community. Committee will not address allegations by a nonmember against a member.

**Assumptions:**

1. Our members are committed to fostering a supportive, nonjudgmental environment within ALDE.
2. Members support the ALDE Code of Ethics and are committed to upholding it.
3. Concerns about the conduct of another member will be raised for the purpose of clarifying the issue within the context of the Code of Ethics and our Christian teachings, and not for judging another member.
4. A member may not be aware that his or her conduct violates the Code of Ethics.
5. The Ethics Committee's role in ALDE is to educate its members on matters of ethics, and the Committee will not sit in judgment of the conduct of any member.
6. Matthew 18 provides a model for efforts to resolve conflicts or concerns involving members on issues of ethics coming within the ALDE Code of Ethics.

*(continued)*

**Process:**

1. The person raising the issue concerning another member will be referred to the Chair of the Ethics Committee.
2. The Chair, or another committee member appointed by the Chair, will have one or more discussions with the person raising the issue to define and clarify the nature of the ethical issue in light of the facts and circumstances of the situation and within the context of the Code of Ethics.
3. If, after the discussion with the Chair or the Chair's appointee, the person raising the issue believes that unethical conduct is present, he or she will contact directly the person who is alleged to be acting unethically and will seek to define and clarify the nature of the ethical issue in the manner described in step #2 above. The nature of the contact will be informative for both parties, not confrontational or accusatory. An effort will be made to understand and appreciate the point of view of both parties. If there is no agreement on whether or not unethical conduct exists, then an agreement to disagree will be made. The person raising the issue will summarize the parties' discussion and conclusions in a letter to the Committee Chair. The Chair will hold the identity of the parties in strict confidence and will excise the names of the parties from the letter before it is placed in the Committee's files or disseminated to Committee members.
4. The parties may request to have further discussion, including participation of the Committee member who had the initial discussion in step #2. This discussion will be conducted in the same manner as in steps #2 and #3. After the discussion, the Committee member will summarize the discussion in a letter to the Committee Chair, which will be handled in the same manner as the letter described in step #3.
5. If the Committee member who participated in discussion with both parties concludes that the issue has not been resolved and that the circumstances merit further consideration, he or she may recommend to the Committee as a whole that it review the matter and consider further action. In certain circumstances, further action may include expanded discussions with the parties, inclusion of the organization that employs the person about whom the concerns have been raised, or involvement of an independent professional mediator.

*(continued)*

***ALDE Ethics Committee 1996 - present***

**Chairs:**

David J. Roslien, PhD (1996-1998)  
Cheryl Grasmoen, JD (1998-1999)  
R. Stephen Wheatly, JD (1999-2001)  
Rev. David Larson (2001-2003)

**Members:**

Dr. Ron Beckman, CFRE (1999-2002)  
Patricia A. Bilow, CFRE (1994-1997)  
Kathryn K. Buchanan, CFP (1998-2001)  
Michael W. Butterfield, CFRE (1994-1995)  
*(Also, served as chair of the task force that developed  
ALDE's Code)*  
Beth Nelson Chase, CFRE (2002-2003)  
Michael N. Fischer, CFRE (2000-2002)  
Marshall R. Gillam, Ed.D, CFRE (2002-2004)  
Cheryl Grasmoen, JD (1996-1999, 2002-2003)  
Dr. David Hahn (1995-1996)  
Rev. Thomas L. Jolivette, CFRE (1996-2002)  
Rev. David Larson (2000-2002)  
Lois A. Natarajan, CFRE (1999-2002)

Ann Sponberg Peterson (2001-2004)  
Sandra Potts (1997-2000)  
David J. Roslien, PhD (1994-1998)  
Cheryl J. Scarinci, CFRE (1996-1997)  
John F. Schoedel, CFRE (1997-2000)  
Grace H. Schroeder Scott, CFRE (1994-1997)  
Deborah Simonson Smith (1997-1998)  
Craig D. Stirtz, CMSW (2002-2005)  
Rev. Ronald G. Timmons, CFP (2002-2005)  
James M. Unglaube, PhD (2001-2004)  
R. Stephen Wheatly, JD (1998-2001)  
Rev. Marcus T. Zill (deceased) (1994-1996)

ALDE's Ethics Committee encourages high ethical standards among members and the organizations they represent. The committee plans and carries out an education program for members on all aspects of the ALDE Code of Ethics and its implications for members.

As an educational service to members, the Ethics Committee is available to respond to members' questions about ethical issues in resource development.

If a situation or issue causes you to wonder about possible ethical implications, you are invited to refer your question to one of the committee members or to the ALDE office at (800) 458-2363.