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Delusional Altruism

WHY PHILANTHROPISTS FAIL TO ACHIEVE CHANGE

AND WHAT THEY CAN DO TO TRANSFORM GIVING

FOREWORD BY PAMELA NORLEY
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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

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Library of Congress Cataloging-in-Publication Data

Names: Putnam-Walkerly, Kris, author.
Title: Delusional altruism : why philanthropists fail to achieve change and what they can do to transform giving / Kris Putnam-Walkerly, MSW.
Description: Hoboken, New Jersey : Wiley, [2020] | Includes index.
Identifiers: LCCN 2019057780 (print) | LCCN 2019057781 (ebook) | ISBN 9781119606062 (hardback) | ISBN 9781119606093 (adobe pdf) | ISBN 9781119606048 (epub)
Subjects: LCSH: Charity. | Altruism. | Humanitarianism.
Classification: LCC HV48 .P88 2020 (print) | LCC HV48 (ebook) | DDC 361.7/4—dc23
LC record available at https://lccn.loc.gov/2019057780
LC ebook record available at https://lccn.loc.gov/2019057781

COVER ART & DESIGN: PAUL MCCARTHY

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

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1 You Save Money on All the Wrong Things

Philanthropists like to save money, but they save it on the wrong things. Let me explain what I mean.

Foundation leaders, donors, professional athletes, corporate executives—all philanthropists—want to be good caretakers of their charitable wealth. They want their assets and profits to grow, so there's more wealth to give. They also want to reduce their charitable costs and save money, so there's more left over to give to the causes they care about.

All of this is well and good.

The trouble is, in their altruistic effort to be frugal, they hold back on investment in important things like talent, strategy development, research, evaluation, technology, relationship building, and even their own personal learning. They hold back investment in their grantees, too.

They do this by setting arbitrary limits on how much money can be spent on nonprofit "overhead," or on when they expect to see grantees' results, but at the same time they refuse to fund evaluation costs.

When they do this, they hamstring themselves and the nonprofits they support. They genuinely want their philanthropy to change the world, but they're under a misguided belief that saving leads to impact. They're delusional about the damage caused by their thrift.

Frugality rarely leads to social change.

This type of destructive frugality happens to all types of philanthropists. Let me give you a few examples:

The CEO of a foundation with more than $200 million in assets refused to allow his staff to take company laptops on business trips. Why? For what he felt was a good reason: He worried his staff would accidentally break or lose them, and he didn't want to spend $1,700 for each replacement machine. The problem, though, was that on business trips the staff couldn't get work done.

You might be wondering, "Why couldn't they use their smartphones instead?" This was in the early 2000s. Sure, they had cell phones back then, and even some early versions of smartphones like the BlackBerry. They weren't the powerful, multitasking microcomputers we today call smartphones. The problem for foundation staff was that without laptop computers, they couldn't make productive use of their time on airplanes or in hotel rooms. They couldn't prepare grant recommendations or research funding opportunities. Responding to emails was cumbersome. They certainly couldn't access the foundation's grants management system to review proposals. In other words, while they might have attended a useful conference, foundation staff got nothing else done for three days every time they made a business trip.

Why? The CEO didn't recognize that the value of investing in his employees' productivity far exceeded the unlikely expense of $1,700. With $200 million in assets and an annual grantmaking budget of $10 million, the laptop expense should not have been a concern.

Here's another example, from the grantee's perspective.

A nonprofit requested a three-year policy advocacy grant from a donor to advance an innovative approach to drug treatment. The donor, however, authorized a grant of only one year. But influencing public

policy can require consistent effort over the course of years. Efforts include conducting research, raising public awareness, organizing residents, educating the media, and meeting with policymakers. It takes time.

Because the nonprofit lacked a realistic three-year funding commitment, its CEO couldn't hire top talent. The experienced person she wanted wouldn't leave her current job and risk her family's financial security for a one-year gig. The CEO ended up hiring someone who was less proven.

In the no-laptops-on-trips and one-year-of-money-instead-of-three examples, the funders saved money up front. But they did so at the cost of staff productivity and program expansion. They saved money on the wrong things. They were under the delusion that they were being good stewards of their philanthropic assets. Instead, they were getting in their own way.

Why does this happen? Part of the spell of delusional altruism is a *scarcity mind-set*. Yes, you read that right. Despite access to wealth, philanthropists live, work, and breathe with a scarcity mentality.

The scarcity mind-set happens to all philanthropists. It probably happens to you, too.

A scarcity mind-set is the misguided belief that a Spartan operation equates to delivering more value on the issues funders care about. It's a belief that, by not investing in their own capacity, talent, research, learning, strategy, technology, effectiveness, and infrastructure (or that of their grantees), funders can allocate more money to the causes they support and therefore achieve a greater impact.

Surprisingly, the scarcity mind-set has little to do with money. It has everything to do with belief.

Scarcity-minded donors believe that investment in their own operation is only warranted when the need is urgent. They limit their opportunities based on current capacity, not potential impact. Improvements they make, therefore, are only incremental. They feel they should always do more with less. In fact, they often believe they don't *deserve* what's best, fastest, or most efficient.

After advising ultra-high-net-worth donors and philanthropy leaders for more than 20 years, I believe this scarcity mentality is one of philanthropy's most detrimental self-created restraints.

The problem with a scarcity mentality is that it hinders your talent, stalls your creativity, and hijacks your opportunities to create systemic change. And it seeps into just about every aspect of philanthropic giving.

I realize you don't want to hear this. You don't want to be a glass-half-empty philanthropist! No one does. But read on. Part of what makes "delusional altruism" so delusional is that we get in our own way *without realizing it*. Let's learn about how we inadvertently allow a scarcity mentality to creep into our lives.

It Starts in Your Mind

A scarcity mentality is the lens with which many donors view their philanthropy. It's important to understand that this is a belief system that misguides your thinking. It's a trickster. It fools you into believing that you are saving money. That the less you invest in your talent, infrastructure, and knowledge, the more you can help others.

This is of course ridiculous. The deceptive scarcity mentality is all in your head.

Before we talk about the ways that the scarcity mentality shows up in philanthropists' lack of investment, I want to talk about the guises it takes in your mind.

This happens most often when you don't trust yourself to make a decision, you limit yourself based on your current capacity, you believe you don't deserve something, or you believe you are too small to make a difference.

Not Trusting Yourself to Make a Decision

Too often, funders don't trust themselves to make decisions. Instead, without realizing it, they shroud themselves in a blanket of "more information." Here's how it works: You know (or are pretty darn

sure you know) the answer. Then, you waste lots of time and money reassuring yourself you're right.

Here's an example: The leader of a corporate foundation wanted to hire a consultant. Two consultants were recommended highly. Still, she wasn't sure whom to choose, so she cast a wider net. She spent months developing a request for proposals (RFP) to find a consultant and another few weeks disseminating it widely. Next, she spent two months sifting through the dozens of proposals she'd received, scheduling and conducting interviews with finalists, selecting one consultant, and negotiating the contract. Six months later, she is ready to make the hire. Unfortunately, she's now lost half a year of her time, wasted countless hours of dozens of consultants' time, her project is delayed, she's behind in her other work, and the people her company is ultimately trying to help have been forced to wait—again.

What's even worse? After all that time and money she spent to find the consultant, she probably didn't find the best one. Why? Top talent in high demand wouldn't waste that much time applying!

Why do philanthropists do this to themselves? Their scarcity mind-set holds them back. They don't trust themselves to make decisions.

Look, sometimes the people involved genuinely don't know something, and they need to take time to learn. I get it. But in this example, the leader was smart. Think of how much better off everyone would have been had she met with each of the two recommended consultants, plus a couple more she could have easily found by asking trusted colleagues, and simply made a decision.

Limiting Yourself Based on Your Current Capacity

Too often funders say, "I can't" because they look at their current capacity and abilities and simply cannot imagine taking on a new task.

Does this ever happen to you or your colleagues? You postpone a project of strategic importance because you are "too busy" right now.

You decide you can't address the root causes of a problem because you don't have enough funds, so instead you fund projects to address the symptoms. You decide not to fund something because you don't know enough about the issue. You choose not to ask community members to inform your funding strategy because you don't feel equipped to address the issues they might raise.

Here's the thing: You might be busy, lacking information, and ill equipped. You might not have enough funds to adequately address the root cause. Great! Now we know where you stand.

But, then again, so what? Your current capacity, knowledge, ability, and funds shouldn't limit the transformational change you can create. You can increase your capacity, gain new knowledge, equip yourself, and leverage additional dollars. It might not be easy. It might take time. And you will probably experience a few bumps and scrapes along the way. That's just fine.

Believing You Don't Deserve Something

Too often, philanthropists feel they don't *deserve* to [fill in the blank], such as invest in themselves, retain an executive coach, fund a needs assessment, attend a conference, improve their technology, hire top talent, spend time learning with other philanthropists, share their accomplishments publicly, learn how they can advocate for policy change, or fund an evaluation.

Why? Because they have a misguided belief that all their money should go to help others.

This is especially pervasive in family philanthropy, among those who have inherited wealth, and among entrepreneurs who have earned their own wealth. But it's true for most any philanthropist.

Mind you, they might simultaneously be spending $15,000 to graphically design, print, and mail hard copies of their annual report; budgeting $30,000 for new marble kitchen countertops for their third vacation home; spending $100,000 annually to mist the plants at

corporate headquarters; or forking over half a million dollars annually on fuel for their private jets.

But when it comes to charitable giving, scarcity rules the roost!

This belief might appear noble. In reality, it is delusional. In order to have the greatest philanthropic impact, you need to be the greatest philanthropist you can be. This involves understanding yourself, understanding the issues and communities you want to help, and investing time and resources to build your philanthropic muscle and know-how.

To help others, you first need to help yourself.

Believing You Are Too Small to Make a Difference

Not every philanthropist is a billionaire. You might be giving away thousands of dollars each year, not hundreds of millions. But a small funder should not limit its aspirations. Even donors with limited means can operate with an abundance mind-set. The world is rife with examples of small funders that created big impact. In fact, Exponent Philanthropy, a U.S.-based network of foundations with few or no staff, philanthropic families, and individual donors, regularly showcases members who achieve "outsized impact" compared to their size.

Too often, however, funders of all sizes believe they are too small to make a difference.

One philanthropy leader had this kind of poverty mind-set when it came to achieving her strategic goals. Her organization organized high-net-worth members to donate to progressive causes. They set specific goals of tripling the number of donor members and dramatically influencing how those donors allocated their funding.

However, she didn't know her baseline. She had no idea how much money her members were already donating to progressive causes. Nor did she know how much influence her organization currently had on her members' giving priorities.

She had a vision for her organization's desired future state, but no idea about its current state. Therefore, it was impossible to create a plan

to move forward. When I suggested she conduct research to understand their current baseline, she balked. "No, we're just a small nonprofit. We really can't afford it," she insisted. Instead, she asked her staff—who were already working overtime and lacked research expertise—to figure it out on their own.

In other words, she was unwilling to make an investment in something of strategic importance to the organization, because she felt her organization was "just a small nonprofit."

Remember, her membership organization is comprised of high-net-worth donors who saw the value in this organization's work. They paid to be members! The wealth was sitting right there. But she wasn't willing to ask any of them to support this project. I'm sure one of her members would have been delighted to fund a research project that would help more philanthropists donate to progressive causes. But her scarcity mentality held her back and stifled her organization's philanthropic impact.

Lack of Investment

Now that we've discussed the guises a scarcity mentality takes in your mind, let's look at how it shows up in philanthropists' lack of investment.

Lack of Investment in Your Own Talent

Too often funders refuse to invest in the human capital of philanthropy. They think they're saving money, but they're shooting themselves in the foot.

Philanthropy is comprised of people. Donors are people. Family offices are run by people. Foundations are nonprofit organizations staffed by people. When we need legal, financial, and coaching help, we retain people. And the people we want to help are, well, people!

Given philanthropy's people-centeredness, the lack of investment in people is stunning.

What do I mean by investing in people? I mean investing in *you*. You—the person reading this book. And the people who help you with your giving. This could be your board of directors, your employees, your boss, your kids, or your spouse. I'm referring to bringing on the best talent to help you start, design, grow, manage, assess, and scale your philanthropy to achieve maximum impact. I also mean providing them with the resources and support they need to be their best selves and contribute their talents. After all, you want to change the world.

Sadly, this often does not happen. Most well-intentioned philanthropists don't invest in themselves.

Let me share a few examples.

One former professional football player started a nonprofit foundation to give back to his community. He created football camps and tutoring programs to offer low-income kids an opportunity to learn a sport, gain teamwork skills, have positive role models, and increase their educational opportunities. Although he made significant financial contributions, he knew he needed to raise additional funds to scale and sustain these programs.

Like most people, he lacked fundraising experience. He didn't know the best way to raise money. He and his wife tried, but their efforts didn't result in large contributions. Yet he refused to hire a fundraising consultant or grant writer. Why? It would cost money! You can guess what happened. He was able to maintain terrific camps and tutoring for a small number of kids, but he couldn't realize his vision of helping greater numbers.

In Africa, a multifamily office hired a talented nonprofit leader to serve as its first director of philanthropy. His job was to help the families become more philanthropic. The thing was, though, that while he had excellent leadership skills, he didn't have much knowledge about philanthropy. The family office leadership knew that from the outset, but they just assumed he'd figure it out. They refused to provide him with any professional development or coaching to boost her knowledge and expertise. Without any specialized information and support, the new leader quickly became overwhelmed.

A new health foundation was created following the purchase of a nonprofit hospital by a for-profit hospital. Overnight, the hospital board of directors became the foundation board of directors. The board hired a chief executive officer but refused to allow her to hire any additional staff. The CEO was expected to develop the foundation's strategy, navigate the board through politically charged local issues, create new partnerships, and grow the foundation. But she was also required to personally proofread, photocopy, and collate meeting materials; find and schedule the caterer; take meeting minutes; and handle the bookkeeping.

Bookkeeping is important. And everyone likes to eat food at meetings. But you want your leaders driving the train, not shoveling coal into the furnace. The problem here is that the board refused to invest in any additional staff—not even a virtual assistant or part-time bookkeeper—to handle the back-office work so that the foundation leader could lead. As a result, the CEO spent nearly three-quarters of her time doing administrative tasks. That's time not spent building relationships, assessing community needs, planning, or thinking. Not surprisingly, she was frustrated. A year later, she was secretly looking for a new job.

Hiring the right talent and positioning that talent for success is critical. Unfortunately, all types of philanthropists fall prey to a scarcity mentality that holds them back. Lisa McLeod, author of *Leading with Noble Purpose*, explains:

> Many corporate leaders make the mistake of not putting a power player in charge of corporate philanthropy. They hire lower-level, less expensive employees for this role. This sends a message that philanthropy is not important. It also results in less effective philanthropic impact. If businesses want to give in meaningful ways, they should invest in philanthropy leaders who have both the positional authority and personal authority to make a difference.[1]

Not every region of the world is equally positioned to invest in philanthropic talent. In Russia, for example, the philanthropic sector has few people with appropriate degrees, and there is no systemic training in the management of nongovernmental organizations. "In general,

the [philanthropic] sector offers lower financial remuneration than the business sector," explains Oksana Oracheva, executive director of the Vladimir Potanin Foundation. "Few foundations offer competitive salaries; the best-paid positions (at the program officer level) are within the US$3,000–US$5,000 per month salary range."[2] Some effort is under way to offer nonfinancial benefits, such as extra days off, flexible work schedules, conference participation, and special recognition awards, to attract and retain top talent. Unfortunately, these efforts are not used systematically, and it's still difficult to attract people with the right skills.

Lack of Investment in Your Own Capacity

A scarcity mentality holds philanthropists back from investing in themselves in other ways. This includes a lack of investment in research, organizational learning, operations, infrastructure, and innovation.

One couple wanted to spend $1 million to reform public education across a 12-state region of the United States. On one hand, a million dollars is a lot of money. On the other hand, it would cover the salary of about 16 teachers. For one year. It's hard to reform public education by hiring 16 teachers for a one-year gig.

Unfortunately, this couple was not willing to invest the time and resources necessary to learn about the strengths and challenges of public education, best practices in education reform, or ways it could realistically make an impact with this level of investment. Nor were they interested in exploring how they could leverage their million dollars by partnering with existing education reform efforts. They wanted all their funds to support education. While noble in its intent, this approach would not help them reach their goal.

Lack of Investment in Nonprofit Talent and Capacity

Well-meaning philanthropists just like you have a scarcity mind-set when it comes to investing in the talent and organizational capacity of grantees.

Simply stated, you don't invest enough. And what you do invest is too often tied up in unfair and unnecessary hoops, hurdles, and hoopla.

As you know, your grantees are helping you achieve your philanthropic mission. Chances are high that you, the philanthropist, aren't the person building low-income housing in Philadelphia, installing portable toilets in Ghana, or training the next generation of teachers of color. Your grantees are.

And, as you know, your grantees are comprised of people. Amazing people. These outstanding people rely upon information, training, technology, curriculum, fundraising, financial systems, governance, and a host of other things to do their best work.

Don't you want the most talented people doing their best work to help you fulfill your mission? Of course you do!

Yet time and again, funders withhold investment in grantee talent and infrastructure. Do you want your grantees to have mediocre financial management systems, outdated technology, and lackluster board governance? Of course you do not! Yet philanthropists just like you overlook these real needs all the time.

Instead, you believe all your money should "help people" (or animals, or the environment), without recognizing the needs of the organizations doing the help. You have a scarcity mind-set, and it's undermining your effectiveness. Let me share a few examples.

One donor told me she would not allow grant dollars to pay for personnel costs of their grantees! You read that right. She will fund a program, but not the employees who run the program. She might fund a tutoring program, but funds could not be used to pay the tutors. Or she would support policy advocacy, but her grant could not be spent on the advocates.

How on earth can you expect students to learn without people to teach them, or legislators to vote differently if the policy advocate cannot meet with them? You can't. To think otherwise is delusional.

Not paying for personnel costs is one example of a scarcity mind-set. Another is paying below-market rates. In reflecting on the UK-based

Shell Foundation's 15 years of investment in social entrepreneurs, former Portfolio Director Simon Desjardins explained how underinvestment in talent resulted in poor outcomes:

> Though most recognize the importance of building a world-class team, few are prepared to pay for it. In many quarters, it is still assumed that because an enterprise has a social objective, its compensation levels can and should be below market. . . . In some regions (especially Africa, where there is often a shortage of trained professionals), investors and even some entrepreneurs will balk at the idea of paying . . . a market-related salary and typically opt for someone with a lesser track record. Time and again, we have seen this decision backfire and result in lost time and wasted money.[3]

Increasingly, philanthropists are recognizing that to achieve real outcomes, they must pay the real costs necessary to achieve those outcomes. Philanthropy California, an alliance of three regional associations of grantmakers, and the Nonprofit Finance Fund have come together to create the Full Cost Project. The goal of this initiative is to increase philanthropy's impact by adopting new funding strategies centered on the needs of today's social sector organizations. According to a report issued by this association of grantmakers:

> Real cost funding is not about overhead rates. Rather, it is a holistic approach to grantmaking that starts with the end in mind—what are the outcomes we are looking to achieve and what does it really cost to deliver those outcomes? . . . Simply put, the real cost of outcomes includes all of the necessary costs for a nonprofit organization to deliver on mission and to be sustainable over the long term.[4]

These might include the costs of donation management systems, strategy development, talent recruitment, professional development, fund development, financial management, board development, information technology upgrades, data collection and evaluation, start-up costs, and more.

In an open letter to all U.S. donors, Charity Navigator, GuideStar, and BBB Wise Giving Alliance encouraged all donors to move beyond the myth that low overhead rates mean better nonprofit performance:

> In fact, many charities should spend more on overhead. Overhead costs include important investments charities make to improve their work: investments in training, planning, evaluation, and internal systems—as well as their efforts to raise money so they can operate their programs. These expenses allow a charity to sustain itself (the way a family has to pay the electric bill) or to improve itself (the way a family might invest in college tuition).[5]

Yet most nonprofits continue to feel hamstrung by the philanthropic donations that are supposed to help them. In its 2018 survey of 3,400 U.S. nonprofit leaders, the Nonprofit Finance Fund identified nonprofits' top challenges. These included achieving financial sustainability (62%), raising funding to cover full costs (57%), and offering competitive pay (66%).[6]

This scarcity mind-set isn't limited to philanthropists in the United States. Italy's history and culture have contributed to societal beliefs that social sector organizations do not warrant infrastructure investment, according to Carola Carazzone, secretary general of Assifero, an Italian association of grantmaking foundations and institutional philanthropy. This includes a culture of Catholic voluntary service and a social services system in which for hundreds of years services have been provided free of charge by the church and, for the most part, by women.

"The spiral of producing [and] reporting projects only to match the priorities of calls for proposals launched by public and private funders, together with the perpetuation of a chronic underinvesting in the organizations, skills, and staff has led Italian civil society to the failure to develop its full potential," argues Carazzone. This has resulted in a culture of "low pay, make do, and do without."[7]

Charitable organizations in Kyrgyzstan, a Central Asian country bordering China and Uzbekistan, face even stricter challenges. They

are "... obliged by law to spend 98% of their income on a charitable purpose or purposes within a year after receiving a donation, and thus leaving only 2% of this income to cover general overhead costs, including the salaries of personnel," according to Dinara Musabekova, director of the Civil Society Initiative at the University of Central Asia.[8]

How Do You Know If You Have a Scarcity Mind-Set?

Do you suffer from a scarcity mind-set? Don't take this personally, but chances are high that you do. I do, too. We all experience this at some point. I commonly see eight warning signs among philanthropists.

Take this eight-question Scarcity Mind-Set Quiz and see if a scarcity mentality might be holding you back. Give yourself a point for each question you answer affirmatively:

1. You frequently ask, "What's the cheapest way we can do this?" regardless of impact on quality, speed, or your discomfort. For example, you'll take a red-eye flight home to save money on hotel costs, even though it means you are exhausted and unproductive the next day.
2. You don't *regularly* make investments in your talent and infrastructure, or that of your grantees. This might include getting professional development or coaching, upgrading computer systems, attending conferences, evaluating your impact, etc.
3. Your workplace culture values working harder, not smarter. For example, people are expected to work late hours or on weekends, long meetings are the norm, and there are always lengthy processes for strategic planning or budgeting.
4. You hold a belief that every dollar you raise should go to the people and communities in need. You feel guilty investing in yourself.
5. You believe the real problems you want to tackle are impossible to solve with your funding. Instead of figuring out how to leverage your funding for outsized impact, you choose smaller, easier-to-solve problems. You often fund projects that eradicate the symptoms and not the cause.

6. You know something is critical to the success of your endeavor (e.g., a communications plan, developing partnerships, taking time off), but you never feel you have the time or resources to obtain it, do it, or fund it.
7. You don't invest in the people who could help you navigate your philanthropic journey, avoid mistakes, or save time. These could be trusted advisors, professional services (e.g., attorneys, accountants, donor-advised fund sponsors), content experts, consultants, or administrative support professionals.
8. You or your staff feel you don't have time to regularly think, plan, or build relationships because you're always too busy.

How did you do?

Let's first look at the worst-case scenario. If you scored 6–8, you need an intervention. You might even need therapy! In all seriousness, with a score like that, I'd wager that a scarcity mind-set is holding your philanthropy hostage. You could have greater impact, but you thwart yourself at every turn. But don't panic. Remember, a scarcity mind-set is just that—a mind-set. It's your beliefs. Beliefs can be changed. And just as in Alcoholics Anonymous, the first step is to admit you have a problem.

If you scored 3–5, your scarcity mind-set is certainly holding you back, but it's not strangling you. At least, not yet. Take a good look at the statements to which you answered "no." If you embrace an abundance mind-set for those questions, think about how you can transfer that abundance mind-set to all aspects of your giving. (I will tell you more about an abundance mind-set in Chapter 9, "You See and Act Abundantly").

If you answered "yes" to only one or two statements, you are in pretty good shape. But take a hard look at those statements. What's holding you back? Why do you feel scarcity in those areas? What investments in time or resources could unleash your effectiveness?

Now, if you scored a zero, you're likely in denial! Reread this chapter and open yourself up to the possibility that you are holding yourself back in some area of your work or life. In my entire professional career, I can

only think of one person who genuinely, consistently, and in all aspects of his life could answer "no" to all of these questions.

Now, if you do truly feel that none of this applies to you, email me at kris@putnam-consulting.com and let me know how you do it! Seriously, I'd love to hear from you.

Why Does This Happen?

What causes a scarcity mind-set? In my experience advising hundreds of wealthy donors, corporate executives, foundation leaders, and everyday givers, it comes down to just one thing: fear. Funders feel fear, and this fear causes them to hold back.

In the next chapter, we'll take a close look at how fear contributes to a scarcity mind-set and the different kinds of fear that cause funders to hold back. Once you face your fears, you can overcome them.

Notes

1. Author interview with Lisa McLeod, August 8, 2019.
2. https://www.alliancemagazine.org/feature/financial-and-non-financial-striking-a-balance/.
3. https://www.alliancemagazine.org/feature/five-lessons-about-human-capital/.
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