

The Professional's Dilemma

Alan, the executive director of a small nonprofit, is sitting down to dinner with his family.

Responsibility weighs heavily on Alan. It's nearly time to reapply for a grant that's been his organization's largest source of funds. Alan has carefully cultivated a relationship with Beth, the program officer for the foundation funding the grant. Beth knows and likes Alan, and is excited about the work he's doing. If Alan's organization applies for a grant to continue their existing work, it will almost certainly be approved. But Alan isn't sure what to do.

In the past few months, it's become increasingly clear that his fledgling organization's main program - the one they were able to write grants for - isn't the best fit for the needs of the people it's supposed to serve. A bright young intern, Charles, proposed a new program that, as far as Alan can tell, would be a better fit both for the team and the people they are trying to help. On the merits, it seems like Charles's idea is the right thing to do.

Alan could, in reapplying, explain the limitations of the existing program, and why the new program would be better. But that would rock the boat. It would mean challenging the very story that got last year's grant. There's no guarantee Beth would like the new idea. No one else has done it. There's no track record to point to.

Alan thinks of what might happen if the grant isn't approved. He'd have to lay people off, good people, and his organization might not survive. Even if it does, he'd have to take a pay cut, maybe move to a house in a less expensive neighborhood, pull his kids out of school. It's not certain this would happen, but can he afford to take that chance?

Let's look across the dinner table at Alan's wife, Dana. If Alan tells her about his dilemma, what do we expect her to feel. What would be the safe option? Disclosing the potentially unsettling truth to the funder in the hopes of being able to do better work in the future? Or smoothing things over, tweaking the existing program to try to patch some of the worse gaps, and muddling on? What will feel to her like the responsible choice for Alan to make, for his family and the other people depending on him?

In most cases we should expect Alan's wife to feel safer if Alan keeps up appearances. And that's why vast swathes of our professional society are underperforming their potential: because playing it safe means covering things up.

Can organizations ever support new ideas?

An organization that's funding outside parties to accomplish certain goals (e.g. a charitable donor or foundation giving to charities) generally won't fund ideas, even ideas from those people who are both famous and established experts, unless those ideas start off with a critical amount of their own money attached.

Either the idea has to be spearheaded by someone who has enough personal funds, or it has to have raised enough money from donors/investors who no longer have the in-practice authority to dictate decision making.

(For more detail on this, see Samo Burja's essay [Borrowed versus Owned Power](#). Borrowed power is granted conditionally -- if your charity is given a "donation" under the condition that you continue to make the donor happy, that's borrowed power. If you have the money in your own personal savings account, or if the charity raised it from so many small donors that none of them are entitled to make demands about how you spend it, that's owned power. Borrowed power is always weaker than owned power.)

It's not generally considered "credible", by big donors, that an initiative will be effective enough to be worth funding unless the initiative has managed to cross a certain threshold in terms of acquiring resources.

Moreover, if the grantee meets that threshold, gets funded, and does a good job with that money, this doesn't necessarily "unlock" disproportionately more resources from the big donor; the grantee will still have to hustle the same amount, or nearly so, to get the second grant. They're still running on borrowed power; they still need to keep looking over their shoulder, worrying about what the funders might think.

The usual paradigm says "if you don't already have owned power, we're not going to give you any owned power, only borrowed power." A funder won't give you autonomy; if you don't already have autonomy, you don't deserve it. This means that nobody can gain autonomy through convincing donors that they should have it. You can only gain autonomy by *taking* it, surreptitiously, from people who don't want you to have it.

We know it's possible to do better than this, because this paradigm would never have allowed the Manhattan Project to get funded. Einstein didn't come with his own money; he was merely a renowned physicist with a credible proposal. Somebody in the government had to literally believe his claims that a specific thing that had never been done before could be done.

This kind of belief is crucially different from the sense usually used when we talk about believing in someone, in that it is about the trusted person's relationship to their field of expertise, not their relationship to the person trusting them. Not everyone can evaluate every idea, but if a person reaches a certain threshold of expertise, eminence, reputation for honesty, etc., the funder has to be able to come to believe that the *content* of their ideas is more likely than baseline to be valid and worth pursuing.

As a funder, you have to be able to *believe someone* -- not everyone, but *someone* -- when they say an initiative is worthwhile, enough that *you* are willing to take the initiative to make it possible, and you don't expect to regret that decision. Otherwise, **you are not looking for ideas outside your institution**. You are not a "hub", you are not reachable, you are just doing your thing with no outside input.

Another way of putting this is that funders need to be able to see potential grantees as *peers*. Organizations having "friends" -- other organizations or consultants/free-agents that they trust, are mission-aligned with, and communicate openly with -- is often considered unprofessional ("incestuous"), but is actually a good thing! There needs to be someone outside you (or your org) whom you trust to be well-informed and value-aligned.

Without the capacity to process genuinely new ideas, it's less effective to have grantees than to just have employees and decide everything top-down. If you're doing something in a decentralized fashion, it should be because you actually *value* the decentralization -- you want to get an outside perspective, or on-the-ground data, or expertise, or something.

Principal-Agent Problems

How can the principal (the funder) trust the agent (the grantee)?

Most of the incentive systems in the what we hear about in charity are rather primitive; it boils down to "demand more documentation and proof from grantees."

This is primitive because it tries to *enforce* honesty by spending resources on detecting dishonesty, which can be very costly, relative to other ways of incentivizing honesty. It's not even asking the question "what's the most efficient way to get the grantee to tell me the truth?"

The aesthetic underlying this attitude is called authoritarian high modernism; just trying to add metrics, not even engaging with the fact that metrics can and will be gamed. The people who survive in positions of power in such a system are not the ones who naively try to answer questions they're asked as accurately as possible; they're the ones who keep up appearances. Conversely, when interacting with someone who keeps up appearances and who has survived in a position of power in such a system, there is common knowledge only 'professional' efforts will be supported, and that 'professional' efforts are efforts that don't freely reveal information.

You *can* enforce quality control in a top-down fashion if you have an impartial investigative process and an enforcement mechanism, but who investigates the investigators? Who judges the judges? Ultimately somebody has to WANT to give an honest report of what's going on. And those impartial investigators have to be incentive-aligned such that they **benefit more from being honest than lying**. Otherwise, even if initially most of the investigators are highly selected for honesty, by organizational maturity, all will have been selected for 'discretion'.

To get honest reports, you need a mechanism designed in such a way as to systematically favor truth, much like auctions designed so the most advantageous price to bid is also each person's true price. How do you do that?

How to solve the problem

Let's work through a concrete example: Suppose you're considering giving a grant to a charitable organization. They send you a budget and ask for a dollar amount. How can you incentivize them NOT to pad the budget?

For instance, if they expect that they might be able to get this grant but they'll have a hard time getting a second grant, they have a strong incentive to ask for enough money up front to last them several years, BUT to say that they need it all for this year.

This will happen UNLESS they have reason to believe that you'll frown on budget-padding, BUT are willing to look favorably on orgs that do well in the first year for subsequent grants.

This requires opening up lines of communication MUCH more for successful/trusted grantees than for random members of the public or arbitrary grant applicants. It needs to be POSSIBLE to earn your trust, and for that to unlock a certain amount of funding security. Otherwise, grantees **must** seek funding security -- for themselves, their families, their employees, their charitable work -- because without doing so they won't be able to do their job at all. They'll seek it through deceiving you, **because that will feel like, and will actually be, and will be seen by all observers to be, the responsible thing for them to do.**

If you make it seem like "nobody should be able to count on my support, I'll keep 'em on their toes", they'll find something else they can count on, namely your ignorance of how their project works. The agent ALWAYS knows more than the principal about the operational details of the project! They can always keep you in the dark more effectively than you can snoop on them.

So you have to make earning your trust *possible, empowering and rewarding*. You can of course revoke those rewards if they betray your trust, but ultimately you have to be much less suspicious of your trusted friends than you are of randos. Yes, this means you take on risk; but the grantees ALSO take on risk by being honest with you. It's symmetric.

Here's one common failure mode in the conventional paradigm: you can't appear competent if you reveal the truth that something in your project isn't working at the current funding level and needs more money. You can't seem "needy" for money, or you'll look incompetent, and you won't get the money. So instead you try to get the money by inflating your accomplishments and hiding your needs and trying to appear "worthy."

This is counterproductive from the funder's point of view. As a donor, you want to give money where it'll do the most good. This means you need accurate info about what it'll be spent on. But the grantee doesn't necessarily trust you to believe that what they *actually* need money for is worthy.

For a well-known instance, many donors think operational costs are "waste", so charities fudge the accounting to make it seem like all donations go to program expenses, and *still* underspend on operational costs like paying their employees.

Or, sometimes part of a charity's actual budget is somewhat unsavory, like bribes to officials in corrupt countries being a necessary cost of actually operating there.

Or, some costs can be embarrassing to admit, like the costs of learning/mistakes/R&D, if there's a perceived expectation that you have to get things right the first time.

So the onus is on the funder to make it clear that you want to know what they ACTUALLY need, what their REAL constraints are, and that you will not pull the plug on them if they have an awkward funding crunch, once they have earned your trust to an adequate degree.

It has to be clear that CANDOR is an important part of earning your trust. In particular, it needs to be clear enough to the *third parties* in the life of the individual you're funding, that being honest with you will pay off, that *they* pressure the grantee to be more honest with you, the funder.

How does their family feel? Is the *spouse* of the charity's executive director nagging them to be more honest when fundraising, because that's what'll put their kids through college? Because, if not, you can bet their spouse is nagging them to be *less* honest while fundraising, to squeeze more money out of the donors, because that's the responsible thing to do for their family.

What about their other dependents -- employees, collaborators, beneficiaries of charitable programs -- would THEY put pressure on the executive director to be more forthcoming with the funder? Or would they say "squeeze those rich morons harder so we can keep the lights on and help people who need it?" (Or, perhaps, more discretely but synonymously, "don't make waves, jump through the hoops they're asking you to jump through and tell them what they want to hear.")

People don't exist in a vacuum; they want to gain the esteem and meet the needs of the people they care about. We have to be not only rewarding honesty - not only rewarding honesty *more* than smoothing things over - but OBVIOUSLY ENOUGH rewarding honesty that even third parties know our reputation. Otherwise **everyone who tries to be honest with us will receive a continuous stream of pressure to stop being so irresponsible.**

"Why are you favoring a rich guy or a huge foundation over your own family and an important cause?" It's a fair question! And you need to flip it on its head -- you want everyone to be asking "Why are you forgoing HUGE OPPORTUNITIES for your family and an important cause, just because you're too insecure to be candid with a rich guy?"