

On Noprofits and Risk

One of the ideas behind a nonprofit organization is to fund things that the market wouldn't. Activities some deem beneficial, but where it is presumed there is too much risk for a for-profit enterprise to pursue it and not enough clear, quick return, too high a rate of failure, etc.

The reality of nonprofits is the opposite.

They tend to be vastly more cowardly, timid, and short-sighted in their endeavors than venture capital funds and other for profit ventures. (Not to mention almost entirely ineffectual at achieving the modest aims they do select.)

Nonprofits tend to fund very safe things. Why?

There is no upside for them, really. It's all downside. Fund stuff that doesn't pan out, and you look foolish. Since profit and loss aren't involved, looks are it. People involved in nonprofits are in it for the reputation, not the profits, so PR wins over payout. Donors prefer PR wins. They are rational, and they invest for profit elsewhere. Nonprofits are their bucket designated for good feels, social signaling, defensive reputation management, or to give a relative something to do that won't muck up the family business.

So instead of funding things too risky for markets, where you might expect a very low hit rate, nonprofits go for big, easy, feel-good wins and throw resources behind things that were happening anyway, with or without them, or things with little to no way to lose.

The theory that nonprofits are needed to promote high-risk pursuits falls apart when examined. Nonprofits exist for tax write-offs (nothing wrong with that; I wish government would stop taxing for profits too!) and to provide something to do with all the money people earn but don't know how to spend in ways that don't make their lives worse. (It's more complicated than you might think for wealthy people to do something with their wealth).

That's all fine so far as it goes.

But they also provide a dangerous honeypot for people who want to be less risky and hardworking than the market would demand of them. For the people who work there, nonprofits are a wonderful, dangerous vacation from the feedback of reality. They provide a sort of cushy anti-moral hazard, where people take *less* risk than they would if they faced direct market feedback from customers. An environment like that is good at slowly stagnating or even corroding the human spirit, as safety nets tend to do.

Be careful. The incentive structures you put yourself in are vastly more important than your principles or willpower in shaping who you become. Think about the kind of person you want to be, and move out of incentive structures that reward the opposite.