

What if a Donor Threatens to Renege on a Pledge?

11.20.14 | Linda J. Rosenthal, JD



At the end of our post on charitable pledges (“What, Exactly, Is a Pledge?”), we posed the question: “What if an organization’s mission or activities change before an entire pledge is paid. Can the donor revoke a pledge based on changed circumstances?”

This is Not A Hypothetical Problem

When a donor makes a pledge, and then threatens to back out, the underlying dynamic is a often a tug-of-war for control over the charity’s operations. Many of these situations arise in the higher education arena and involve huge donations. But the same problem can occur with a smaller organization. The dollar amount of the contribution in question may be much less than the millions at stake in the university-donor scenario but, to the local 501(c)(3) with limited resources, hanging on to the promised funds may be a matter of organizational survival. There are cases across the nation that highlight the issue of donors who are able to pay the amounts they have pledged to charitable institutions, but who renege or refuse to pay unless the donee-organization makes demanded concessions.

The Stanford Donor

A wealthy donor – whose family had previously made large contributions to Stanford University and whose name was plastered all over campus buildings and programs – made a pledge of \$25 million to Stanford University. By 2007, he had already “paid \$22.5 million of the pledge. Then he changed his mind and announced he was withholding the final \$2.5 million. The reason: He objected to an alliance made between Stanford and Exxon Mobil, worth some \$100 million over 10 years – promoted through a series of media advertisements. The donor wanted Stanford to end the 4-year-old media campaign. The stakes were huge: the amount at risk was not just the remaining \$2.5 million, but the goodwill of (and future contributions by) the donor’s wealthy relatives. Stanford has a large

endowment, though, which helps cushion the fall out by difficult situations like this. It enabled the university to stand firm in the face of the donor's threat.

The Technion Benefactor

Sports-team owner William Davidson had pledged \$30 million to Technion – Israel Institute of Technology. In 1999, he reneged on the promise because he was dissatisfied with the progress of the business school program that he had funded. He allowed the educational institution to keep the \$7 million he had already paid, but switched his sponsorship and funding to a different Israeli educational institution, the Chaim Weitzmann Institute. It appears that much later, though, he restored some of the funding to Technion.

The Oregon Philanthropist

Phil Knight, billionaire-owner of Nike, pledged \$30 million to his alma mater, the University of Oregon, to pay for part of the \$80 million to renovate an athletic stadium. But he threatened to withhold the money. Why did he change his mind? Nike had long faced allegations about sweatshop conditions at its overseas factories. The University had joined the Workers Rights Consortium, a labor-monitoring group backed by students. Nike favored a different monitoring group which had apparel company representatives on its board. The University would not back down and withdraw from the Consortium; Knight followed through with his threat to renege on the pledge.

Alternatives

A situation like this facing a less prominent organization won't make headlines, but it can present wrenching choices and potential disaster. Unlike well-endowed institutions like Stanford, the average charity would be in no position to refuse the demands of overbearing donors. But the best defense is a good offense: Be aware that donors giving substantial support to your organization may be tempted to press their inherent advantage, and make increasing demands for input and control.