

## CHAPTER ONE

# Contemporary Dynamics of Philanthropy

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**H**ank Rosso said that fund raising is the servant of philanthropy. He also said that the privilege to ask for philanthropic support depended on the public benefit, the social need being filled by the organization doing the asking. This chapter begins with an introduction to the critical roles that philanthropy plays in a civil society, discusses changes in the environment in which fund raisers do their work, and examines the tensions and challenges those changes present for philanthropic fund raising.

## THE MULTIPLE ROLES OF PHILANTHROPY

Philanthropy plays a number of distinctive roles in U.S. society. Increasingly, other countries are turning to philanthropy to fill some of those roles as well. And while government and business also contribute to civil society, in the United States, philanthropy plays a larger role than anywhere else in the world. With three successive U.S. presidents from two different political parties emphasizing the importance of service to others, many observers believe that philanthropy and the nonprofit sector have taken their rightful place in U.S. society. Keeping the primacy of mission in mind, we can identify at least seven significant roles that nonprofit organizations and philanthropy play in a civil society: They reduce human suffering, enhance human potential, promote private equity

#### 4 HANK ROSSO'S ACHIEVING EXCELLENCE IN FUND RAISING

and justice, build community, provide human fulfillment, support experimentation and change, and foster pluralism.

### **Reduce Human Suffering**

The first role is to reduce human suffering through such efforts as health care, human services, and international relief; to make life more comfortable for those who are injured or ill; to aid victims; and to assist those not able to sustain themselves. This is perhaps the oldest role of philanthropy, one that has existed throughout recorded history.

### **Enhance Human Potential**

Enhancing human potential through religion, education, the arts, culture and the humanities, public and society benefit, the environment, and international efforts is the second role for nonprofit organizations in a civil society. The goal is to enable each person in society to go beyond his or her current state to reach his or her full potential.

### **Promote Private Equity and Justice**

Philanthropy promotes equity and justice through human services and advocacy on behalf of those who cannot speak for themselves by promoting structures and programs in the public, private, and nonprofit sectors. Nonprofit organizations help build a more just society. Philanthropy also helps redistribute wealth in the economy.

### **Build Community**

Another role of philanthropy is to build community. As Peter F. Drucker (1990, p. xvii) wrote:

The major challenge for nonprofits is to give community a common purpose. Forty years ago, most Americans no longer lived in small towns, but they had still grown up in one. They had grown up in a local community. It was a compulsory community and could be quite stifling. Still, it was a community. . . . When I talk to volunteers in nonprofits, I ask, "Why are you willing to give all this time when you are already working hard in your paid job?" And again and again, I get the same answer: "Because here I know what I am doing. Here I contribute. Here I belong. Here I am a member of a community."

Community building is an important role of the nonprofit organizations for which we raise philanthropic funds.

### **Provide Human Fulfillment**

Providing human fulfillment is a fifth role for philanthropy: the opportunity to become that best image we have of ourselves. Drucker (1990, p. xvii) notes that the task of nonprofits

is much more than just getting extra money to do vital work. Giving is necessary above all, so that nonprofits can discharge the one mission they all have in common: to satisfy the need of the American people for self-realization, for living out of our ideals, our beliefs, our best opinions of ourselves. To make contributors out of donors means that the American people can see what they want to see—or should want to see—when each of us looks . . . in the mirror in the morning: someone who as a citizen takes responsibility. Someone who as a neighbor cares.

### Support Experimentation and Change

Philanthropy also supports experimentation and stimulates change, improving our society, taking risks, exploring areas that the larger community or the market sector may be unwilling to enter, and looking for alternative or new solutions.

### Foster Pluralism

Finally, philanthropy fosters pluralism. It challenges the status quo and goes beyond interests of the majority. It allows for multiple responses. Philanthropy, voluntary action, and voluntary association protect the minority from the tyranny of the majority. A democratic government, a civil society, allows parallel power structures to carry out what the government will not or cannot do.

## A BRIEF HISTORY OF PHILANTHROPY IN THE UNITED STATES

Philanthropy is practiced in different ways and at different levels in cultures around the world. Sometimes it is primarily directed to religion. Informal philanthropy to friends, family, and neighbors, as in gathering goods and funds at a time of community crisis, is common to all cultures. Chapters Eighteen and Thirty-Two discuss philanthropy and fund raising in different cultures. Because this volume is primarily about fund raising in the United States, we note that philanthropy is present in all cultures, but nowhere is it such a structural part of society as in the United States. U.S. citizens give the largest percentage of personal income and have the largest percentage of the population volunteering.

We should also note that fund raising was not invented in the United States. The ancient Jewish code of *tzedaka* allows for the giver to be asked, although the gift of a giver who must be asked is not valued as highly as a gift spontaneously offered. Mullen (2002) notes that in the fourth century B.C., the Greeks used subscriptions to raise money and that fund raisers were involved in seeking indulgences. But today, other countries are adapting the structured fund raising programs that have developed in the United States.

How did philanthropy become such an important part of American life? The history of America is, to an extraordinary degree, one of a giving, caring people.

## 6 HANK ROSSO'S ACHIEVING EXCELLENCE IN FUND RAISING

It is one of strangers opening their hearts, homes, and pockets to aid those in need. We can learn a great deal about the philanthropic tradition by examining its roots. Beginning with our native culture, the concepts of stewardship and wise use of resources, community rather than private property, and intergenerational sharing and reciprocity inside the community have been important. The seventh-generation concept—that any action must be considered in terms of its consequences on the seventh generation into the future—is the root of modern environmental concerns (“Celebrating,” 2002).

The colonists, with no formal government, engaged in voluntarism. The Jamestown Settlement and the Mayflower Compact represent early examples of voluntary association. Susan Ellis and Katherine Noyes (1990, p. 19) note: “Obviously, this system of government [in the American colonies] was dependent upon citizens willing to volunteer. All community members were welcome to discuss town problems and to propose solutions. Administrative officials were elected to supervise the implementation of plans decided upon by the town meeting. It is evident by a review of the titles and functions of such officials that most were unpaid and accepted the positions out of a sense of moral duty” to the community. Another key factor was the separation of church and state. Education, social services, and poor relief were functions of the church. When the church was separated from the public funding system, voluntarism and philanthropy became the primary source of support, leading to the development of new structures.

By the 1830s, Americans’ generosity and their tendency to form associations were apparent in everyday life. They caught the attention of Alexis de Tocqueville. In *Democracy in America* ([1835] 1956, p. 198), he wrote:

Americans of all ages, all conditions, and all dispositions constantly form associations. They have not only commercial and manufacturing companies, in which all take part, but associations of a thousand other kinds, religious, moral, serious, futile, general or restricted, enormous or diminutive. The Americans make associations to give entertainments, to found seminaries, to build inns, to construct churches, to diffuse books, to send missionaries to the antipodes; in this manner they found hospitals, prisons, and schools. If it is proposed to inculcate some truth or to foster some feeling by the encouragement of a great example, they form a society. Wherever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association.

Robert Bremmer (1988) describes the development of philanthropy in the United States, beginning with the generosity the natives extended to Columbus. He also includes a list of important dates in U.S. philanthropy. Perhaps the earliest organized fund raising in the United States was the effort of a group of colonists to gather funds in England for the young Harvard College using a

brochure titled “America’s First Fruits” as their case for support. Bremmer notes the early efforts of Benjamin Franklin to institute secular charity. Franklin believed in direct solicitation, asking for a specified amount, asking for gifts based on the giver’s means, asking for the largest gifts first, and inviting all potential donors to be part of a project.

Modern U.S. fund raising was influenced greatly by Charles Sumner Ward and Lyman Pierce, who organized a fund raising campaign for the YMCA of the United States in 1905 (Harrah-Conforth and Borsos, 1991). They influenced the structures that were used to raise funds and formed the first U.S. fund raising consulting firm. From these early initiatives came the fund raising consulting practice and the organized institutional fund raising efforts that are discussed in this book.

## CHALLENGES FOR PHILANTHROPY IN THE TWENTY-FIRST CENTURY

Along with the challenges brought by rapid growth in organizations and philanthropic giving, a number of other matters affect the way fund raisers do their work.

### Accountability

In 1993, William Aramony, then the president of the United Way of America, came under scrutiny for his lifestyle, such perquisites as flying the Concorde on trips to Europe, and potential personal gain. Aramony’s activities ultimately led to his conviction for conspiracy and mail and tax fraud, for which he served a seven-year federal prison sentence (United Way of the Bay Area, 2001). It is difficult to say that Aramony’s actions caused a greater call for accountability. These calls had begun prior to the 1990s. But the so-called Aramony scandal certainly galvanized the call.

In the mid-1990s, the calls for accountability became so loud that associations representing various voices in the nonprofit sector supported the development and passage of federal legislation to provide penalties for nonprofit executives and board members who are paid excessive salaries and who benefit personally from their relationship to nonprofit organizations. Known as “intermediate sanctions” because they impose fines as an intermediate step prior to the revocation of an organization’s tax-exempt status by the Internal Revenue Service, the regulations provide a tool to help rebuild trust in nonprofit organizations.

Funders and donors have increased their gift restrictions and continued their call for accountability into the new century. Program evaluation, focus on results, and even impact studies to measure return on gifts have become more

## 8 HANK ROSSO'S ACHIEVING EXCELLENCE IN FUND RAISING

common. Fund raisers need to make certain that their organizations are prepared to respond. INDEPENDENT SECTOR (2000) has outlined a series of steps the philanthropic and nonprofit sector must take to ensure both narrow and broad accountability.

**Narrow Accountability.** According to INDEPENDENT SECTOR (2000, p. 7), “Narrow accountability refers to: (1) the formal responsibilities of individuals and organizations to report their actions to higher authorities (e.g. the Internal Revenue Service), (2) the specific reporting mechanisms they are instructed to use, and (3) the formal standards to which they are held.” To ensure narrow accountability, nonprofit organizations must implement formal reporting structures to comply with applicable laws and regulations.

**Broad Accountability.** Broad accountability encompasses narrow accountability and builds on it by “expanding it in two important ways: (1) it broadens the set of higher authorities to whom individuals or organizations are potentially responsible, and (2) it broadens the criteria, expectations and standards to which these individuals and organizations may potentially be held” (INDEPENDENT SECTOR, 2000, p. 7). Otherwise considered to be “serving the public good” and “preserving the public trust,” it can be expected that broad accountability is often “implicit and subjective.” INDEPENDENT SECTOR suggests attaining broad accountability by “being able to account for the organization’s implied promises to its constituents by pursuing its stated mission in good faith with defensible and transparent management and governance practices” (p. 8). In doing so, the organization is held accountable by the public’s trust.

### Blurring the Boundaries

In a fifteen-year period, nonprofit organizations increased both fee income and government funding at rates higher than philanthropy. So nonprofits have become more interdependent rather than more independent. At the same time, for-profit businesses have entered fields like health care, education, and social service that were once the sole province of the nonprofit sector. The Fidelity Charitable Gift Fund had become the second-largest recipient of philanthropic funds by the turn of the twenty-first century.

Many nonprofit organizations have adopted entrepreneurial models, sometimes forming for-profit subsidiaries to earn income that is used to support subsidized activities. Others earn marketing income through a variety of schemes, sometimes compensating staff on a commission basis for marketing and business income. Fund raisers are challenged by these arrangements because even though it might be ethical to be compensated on a percentage basis for market-based revenue, it is unethical to be compensated on a percentage or commission basis for philanthropic funds raised.

## Changes in Tax Structures

For the remainder of this decade, fund raisers will debate the impact of the repeal of the estate tax on philanthropy. Major changes in the estate tax began in 2002 and will be fully implemented by 2009. Currently, the changes are set to expire the following year. Some research indicates that giving, especially planned giving, will be affected negatively; other studies show that the increased accumulation of wealth that will result will lead to increased philanthropy (Rooney and Tempel, 2001). A variety of other tax changes are pending. Lower tax rates might shift giving, as they did in 1986. Proposals to allow charitable gift deductions for nonitemizers over a certain amount will surely benefit philanthropy, as will proposals to allow individuals to roll over IRAs into charitable gifts and extend the deadline for claiming tax deductions for a calendar year to April 15 of the following year.

## The Behavior of “New Donors”

There is much discussion about whether or not a “new donor” has emerged, and Chapter Seventeen is dedicated to this topic. One bit of wisdom is that the new donors are as different from each other as from the previous generation. Other observers have said that the new donors behave very much like the first generation of formal philanthropists, like Carnegie and Rockefeller. There are a few trends worth noting. Many donors today are interested in pursuing very distinctive projects. Many who accumulated wealth quickly in the 1990s are interested in pursuing philanthropy more quickly and at an earlier age. Venture capitalists who developed wealth through a distinct business approach have developed a “venture philanthropy” approach. The traditional model on which *Achieving Excellence* was built and on which most fund raising programs are operated is challenged by these new models. Sometimes the model of a sound organization with a good cause in search of donors is met head-on by a donor with a good project in search of a willing organization.

## Engaging Constituents

The generation born between 1910 and 1930 has been called “the long civic generation” by Kristin Goss (1999) because they volunteered more (among other civic activities) than any generation before or since. Studies show that young people are coming back to volunteering, perhaps stimulated by new national service programs like AmeriCorps and Learn and Serve and through service learning and curricula like Learn to Give that teach about philanthropy in schools through youth organizations.

But young volunteers are challenging nonprofit organizations to do things differently. Studies show that they would rather volunteer on an ad hoc basis than make a long-term commitment. They prefer to provide direct service rather than

## 10 HANK ROSSO'S ACHIEVING EXCELLENCE IN FUND RAISING

become involved at the policy level. They want to volunteer with friends or coworkers and view volunteering as a social activity. Many nonprofit organizations lack the structures to engage volunteers on their terms, ultimately affecting fund raising. Fund raisers are challenged to develop new models and different methods to engage the next generation of volunteers.

### Professionalization of the Sector

Management of nonprofit organizations has become more professional, and so has philanthropic fund raising. This trend is likely to continue. One study estimates that there are now more than 242 programs offering graduate and undergraduate degrees related to philanthropic studies and nonprofit management in colleges and universities and expects that number to increase to 400 by 2005 ("Building Bridges," 2001). Harland Bloland (2002), who has spent time analyzing fund raising as a profession, now concludes that fund raising has in fact become a profession.

This professionalization provides better use of resources, more strategic approaches, enhanced accountability, and more effective fund raising. Professionalization can help enhance and develop philanthropy. But professionalization also provides some challenges. It has the potential to diminish the volunteer experience and disengage volunteers if we do not see "managing" volunteers as a professional responsibility. Professionalization may cause fund raisers and others to focus more on their career development than on the needs of their organizations or donors. And it will surely continue to heighten the tensions surrounding compensation levels in the nonprofit sector.

## OPPORTUNITIES FOR PHILANTHROPY IN THE TWENTY-FIRST CENTURY

The challenges just discussed, and others, will be more fully explored in the following chapters. And although nonprofits must rise to the fund raising challenges, they also have tremendous opportunities to expand philanthropy and to capitalize on the circumstances an expanded philanthropy will support.

### The Wealth Transfer

As stock markets around the world climbed during the 1990s and the U.S. and global economies expanded, some analysts forecast a new "golden age of philanthropy" (Havens and Schervish, 1999). Havens and Schervish issued new figures on the transfer of wealth from one generation to another during a fifty-five-year period in the United States. They predicted not just an adjustment to the \$10 trillion transfer we had all come to know but a minimum of \$41 tril-

lion based on 2 percent overall growth and \$136 trillion based on 4 percent growth. They projected that even if philanthropy received only its current share of the transfer, an amount between \$6 trillion and \$25 trillion would make its way to nonprofit organizations and foundations. But Schervish (2000b) argues that to realize this “golden age of philanthropy,” we must change the nature of much of organized fund raising. He challenges us to focus on the supply side of philanthropy, the donor, instead of the demand side, the needs of the organization.

### The Supply-Side Model

The trend toward restricting smaller gifts that began in the 1980s has become a major factor in contemporary philanthropy. Schervish (2000b) argues that to maximize philanthropic support from individuals, we need to focus on the supply side of philanthropy. Major gift officers have long realized that the interests of the donor become more important as the size of the gift increases. Hank Rosso’s philosophy of fund raising is based on the principle of understanding donor needs. The supply-side model focuses fund raising on the donor even more deliberately. Much of fund raising has been built on the demand side of philanthropy, looking at societal and organizational needs rather than donor needs. The demand-side approach, according to Schervish, has applied a “scolding model” to fund raising, essentially a sales approach, telling people about the needs of nonprofits and challenging them to give, to give unrestricted gifts, to give at certain times, and to give more and sometimes employing guilt, embarrassment, and coercion to stimulate a response.

Fund raising organized on the supply side must employ what Schervish (2000b) calls a “discernment model” that helps donors decide how to use wealth for philanthropy. Instead of telling donors how to give for what causes and in what ways, as the scolding approach implies, the discernment model focuses on listening. It asks donors questions about what their wealth means and how they might use it. It asks them to consider what they might do for the public good that will bring them happiness and satisfaction. The Rosso approach to major gift fund raising was to have the right volunteers ask the right prospect for the right amount of gift for the right cause at the right time. All these steps focused on the donor.

The supply-side focus helps us understand the direction in which philanthropy seems to be headed in the twenty-first century. If the model holds true for philanthropy, the next ten years are likely to bring two major tensions to the world of fund raising. One is the potential gap between organizational and societal needs and supply-side interests. Most organizations have already experienced a decline in unrestricted gifts and gifts for operating or infrastructure support. Emphasis on the supply side might make these gifts even scarcer. Fund raisers will be challenged to help organizations do better cost accounting to attribute operations and administrative costs to programs. And they will need

## 12 HANK ROSSO'S ACHIEVING EXCELLENCE IN FUND RAISING

to evaluate donors from a supply-side perspective about the other organizational needs, the demand side. Donors who are happy with their supply-side philanthropy must be drawn into deeper involvement with the organization, where they can learn more about organizational needs.

The other tension created by the supply-side model is the evaluation of the fund raising profession itself. A fund raiser employed by an organization who works on the supply side of philanthropy has the potential to expand philanthropy. In fact, Paul Pribbenow (2001) calls for a professional model where fund raisers assist donors in recognizing their values and aim to align both the donor's values and their giving. It is crucial, however, that those fund raisers who serve to link organizations and discerning donors be aware that all parties must be open, honest, and forthcoming with information to ensure a good match of values and objectives.

Fund raisers who become experts at using a discernment approach to help donors create philanthropy from their wealth in a meaningful way may create philanthropy for other organizations in addition to their own. Certain organizational employment arrangements for fund raisers are challenged by this model. How will organizations respond to fund raisers who generate philanthropy for others? Will organizations be able to adopt an attitude of abundance rather than scarcity?

The dynamics presented by the supply-side model and the discernment model challenge the way fund raisers are deployed. If we follow this new model to the extreme as presented in "Donor Interests: Time for New Approaches" (Tempel, 2001), it is possible that fund raisers should be employed by donors instead of nonprofit organizations.

### Corporations and Foundations

As noted earlier, foundations have become a larger force in the total philanthropic picture. The growth of new foundations and of donor-advised and donor-designated funds in community foundations is one expression of the supply-side phenomenon. New assets in foundations, along with increases in foundation endowments through the performance of the equities market, have brought foundation grantmaking to \$25.9 billion, or 12.2 percent of the total, in 2001, from \$7.72 billion, or 7.3 percent of the total, in 1991. A recent report by the *Chronicle of Philanthropy* (Joslyn, 2001) indicated that the number of professional staff in foundations grew to 17,013 full-time and part-time staff members. Fund raisers are much more likely to be dealing with professional staff, full-time or part-time, when approaching a smaller foundation.

Corporate giving has diminished somewhat since 1991, when it was 5 percent of total philanthropic giving, to 4.3 percent in 2001 (AAFRC Trust for Philanthropy, 2002). If the economic slowdown continues through the first decade of the twenty-first century, it will no doubt continue to depress corporate giv-

ing levels. And fund raisers approaching corporations will need to know about the sophisticated ways in which corporations today support the nonprofit sector, a sophistication that will heighten if the economy remains sluggish.

### Philanthropy Internationally

Philanthropy is present in all cultures, but in the United States, it is more formal, more highly structured, and a larger part of the economy than in any other culture. Increasingly, the Center on Philanthropy, its Fund Raising School, professional associations like the Association of Fundraising Professionals (AFP) and the Council for Advancement and Support of Education (CASE), and individual fund raisers are being called on to help build formal fund raising structures in other countries. Increasing wealth and a recognition of how philanthropy can play a role in building a more inclusive civil society are key motivators. There is much for the United States to learn from other countries. There are different and sometimes richer traditions. Often there are better uses of new techniques. And often there are lessons to be learned through foreign adaptation of U.S. models.

## CONCLUSION

The first decade of the twenty-first century may be one of the most interesting periods of philanthropy in U.S. history. Even with a slower-growing economy and an unpredictable stock market, we may be on the verge of a golden age of philanthropy driven by wealth that has greatly increased since the first edition of this book was published. We may also have entered an age of new civic responsibility, of community, of caring for one another that seems to occur spontaneously following material crises (AAFRC Trust for Philanthropy, 2002).

But fund raisers will have to deal with a number of challenges to increase philanthropic response. Creative partnerships to deal with the blurring of boundaries between and among the sectors, balancing demand-side and supply-side tensions, engaging new types of volunteers, and perhaps even redefining their profession and the professional relationships established with organizations may be necessary if fund raisers are to play significant roles in a larger and more effective philanthropy in the United States and around the world.