Fundraising is synonymous with nonprofit organizations in the minds of many people. They may associate it with the flood of solicitation letters that fill their mailboxes around the holiday season, some enclosing address labels, bookmarks, or other items from a charitable organization. Others may think of the charity golf tournament, tennis tournament, or some other event in which they participate. Some, perhaps, may think about the annual phone call they receive from a student at their college or university, or a former classmate, asking for a gift to the institution’s annual fund. Increasingly, they may think about fundraising appeals that they have received through e-mail or an effort that one of their friends may have organized on a social networking site, directing them to a giving platform where they can make their gift using a credit card or other form of electronic payment. Indeed, charitable or philanthropic giving is an important source of revenue for many nonprofits, although just how important varies considerably among subsectors.

For example, gifts provide a small portion of total revenues for health services organizations, which receive most of their revenue from government or private payments for services provided. In contrast, most religious organizations and some human services organizations almost entirely depend on giving. Educational institutions are in the middle—gifts are important, but so are government grants and payments for services provided (tuition). However, even for institutions with substantial revenue from other sources, such as hospitals and universities, private gifts sometimes have an impact disproportionate to their share of total revenues, because they address organizational priorities rather than supporting specific programs or services. For example, unrestricted giving may help support core operations or capacity building, new facilities may require a combination of fundraising and borrowing, and new initiatives that do not yet attract paying customers or grants may be financed through discretionary dollars available to the CEO from endowment income or private gifts.

Although philanthropy in some form is common around the world, organized fundraising and philanthropy on a massive scale is still primarily an American phenomenon—and massive

### Learning Objectives

After reading this chapter, students should be able to:

1. Define key terms and concepts related to fundraising and philanthropy.
2. Summarize the primary motivations of corporate, foundation, and individual donors.
3. Explain the fundraising process.
4. Identify the advantages and disadvantages of various solicitation methods.
5. Explain common planned giving vehicles and the types of donors to which each may be most attractive.
6. Describe the characteristics of campaigns.
7. Define key terms and concepts related to management of fundraising programs.
8. Identify ethical issues related to fundraising.
9. Analyze cases, applying concepts from the chapter.
it is. In 2016, an estimated $390 billion was given to nonprofit organizations by foundations, corporations, and individuals. When philanthropy is mentioned, some people think about corporate giving or perhaps the large national foundations, such as the Gates Foundation or the Ford Foundation. The reality is that living individuals are overwhelmingly the largest sources of giving, accounting for 72 percent of the total in 2016. The largest portion of giving by individuals is directed to religion, which accounts for almost one third of the total each year; however, even when religious giving is excluded, individuals still account for much more than either corporations or foundations in their impact on U.S. philanthropy. In 2016, corporations and foundations accounted for about 5 percent and 15 percent, respectively, of total philanthropy (Lilly Family School of Philanthropy at Indiana University, 2017).

An important and growing component of philanthropy is bequests—that is, gifts made by individuals through their wills or other estate-planning vehicles. Bequests accounted for 8 percent of total giving in 2016. With the aging of the population and the growing wealth of older people, giving through bequests is expected to grow substantially in the coming decades (Lilly Family School of Philanthropy at Indiana University, 2017).

Where does the money go? Next to religion, the largest recipient of philanthropy is education, accounting for 15 percent in 2016, followed by human services (12 percent). Giving to create or enlarge foundations accounts for another 10 percent of the total, followed by gifts to health (18 percent), and public-society benefit organizations (8 percent). The latter include organizations such as United Way and Jewish federations, among others. Although they are important causes for many people, the environment and animals and the arts, culture, and humanities receive relatively small shares of the philanthropic pie, together accounting for 8 percent of total giving in 2016.

Definitions and Distinctions

When Hurricane Katrina hit the Gulf Coast in 2005, the response was immediate and overwhelming, totaling more than $3.3 billion in gifts to organizations providing relief and support for rebuilding (Lipman, 2006). When Hurricane Sandy devasted sections of the U.S. East Coast in 2012, Americans again responded generously. In 2017, donors responded to the destruction of Hurricanes Harvey, Irma, and Maria as well as destructive wildfires in California. In these instances, millions of donors responded quickly to meet urgent human needs, many of them with relatively modest gifts. In contrast, in 2016 Phil Knight, the founder of Nike, and his wife, Penny, gave $500 million to the University of Oregon, Phil Knight’s alma mater, to establish a new institute for scientific research (K. Strauss, 2017). These examples demonstrate the scale and impact of giving in the United States; they also illustrate two different approaches to giving—one focused on immediate needs and the other taking a more long-term, strategic perspective.

In Chapter 2, this text made a distinction between charity and philanthropy as two types of voluntary giving. Charity includes gifts to meet immediate human needs, for example, to provide food to those who are starving or shelter to those dislocated as a result of natural disaster. It is often impulsive and always driven by human compassion. Philanthropy is giving to strengthen the infrastructure of society, that is, to develop institutions that serve human needs or enhance human development over the long run. The objects of philanthropy often include hospitals, universities, museums, and arts organizations—organizations with missions that are perpetually relevant across generations, but which do not have the same urgency as immediate human suffering. Some philanthropic gifts go to create or expand foundations, such as the Bill & Melinda Gates Foundation, most of which are established to last forever or a very long time, tackling long-term problems and issues. Philanthropic gifts are made carefully and thoughtfully, often as the culmination of a long-standing relationship with an institution.
Emotion plays an important role in the decision to make philanthropic gifts—certainly for individual donors, but many also reflect a highly rational analysis that makes giving a form of investing in society and its important institutions. In practice, many people use the terms charity and philanthropy as if they were synonymous or use philanthropy as the broader concept, encompassing all voluntary giving. But the distinction is important, and it is useful for nonprofit organizations to be mindful of how their donors may think about their giving in these different ways.

The past 15 years have seen the rise of new concepts of giving, including venture philanthropy, strategic philanthropy, catalytic philanthropy, and outcome-oriented philanthropy. Each has a somewhat different definition—and various authors define them differently—but the common element is encompassed by the latter term. Outcome-oriented philanthropy refers to philanthropy in which “donors seek to achieve clearly defined goals; where they and [the organizations they support] pursue evidence-based strategies for achieving those goals; and where both parties monitor progress toward outcomes and assess their success in achieving them” (Brest, 2012). These are styles of philanthropy that emphasize the impact of gifts, and donors who follow these styles usually intend to bring about change to address social problems—for example, poverty and unemployment. These approaches may fall somewhere between charity and philanthropy as those terms have been defined above. Unlike charity, this type of giving is not intended to alleviate immediate human needs, for example, displacement by a natural disaster. Rather, like philanthropy, it is long term in its perspective and is intended to build organizations that can effectively address social needs. However, gifts from outcome-oriented philanthropists are generally not intended to sustain traditional institutions, such as universities and hospitals, but rather to build the capacity of nonprofit organizations that work for social change and improvement of educational and economic opportunity.

Before proceeding further, it is important also to clarify some other common terms that have somewhat different meanings but are sometimes used interchangeably in everyday conversation. Fundraising is an activity undertaken with the goal of eliciting charitable or philanthropic giving. Fundraising is related to philanthropy as teaching is to learning; that is, one is intended to accomplish the other, with no guarantee of success because the response lies within the power of the respondent to determine. In the simplest understanding, fundraising means “asking for a gift,” although, as we will soon discuss, it is really a process in which asking for, or soliciting, a gift is but one step.

Many organizations have what is known as a development office. Staff who work in that office may be called development officers and have titles such as director of development. If asked what they do, they are likely to respond that they are engaged in fundraising. The two terms, fundraising and development, represent somewhat different concepts, although the difference is not always maintained in common usage. Development is a term that originated in the 1920s at Northwestern University (Worth, 1993, p. 6). The university had completed a fundraising campaign to build a new campus. When the campaign was completed, the university’s leaders determined that fundraising should be an ongoing, organized effort to continually improve and develop the institution, rather than a sporadic activity undertaken now and then to meet a specific need. The university created a new department to manage this ongoing effort and called it the office of “development,” meaning “institutional development.” Although fundraising and development became interchangeable over time, the latter is properly understood as a more comprehensive approach to the long-term growth of an organization or institution. As I explain in an earlier work,

Fundraising is but one aspect of a complex process involving the institution, its hopes and goals, and the aspirations of its benefactors. Fund raising is episodic; development is continuous. Fund raising is focused on a particular objective or set of goals; development is a generic and long-term commitment to the financial
and physical growth of the institution. Successful fund raising requires a specific set of interpersonal and communication skills: development requires a broader understanding of the institution and its mission as well as patience, judgment, and sensitivity in building relationships over the long haul. A “fund raiser” is an individual skillful in soliciting gifts; a “development officer” may be a fund raiser, but he or she is also a strategist and manager of the entire development process. (Worth, 1993, pp. 7–8)

By the mid-1970s, however, the terms fundraising and development had become so interchangeable in use that when the Council for Advancement and Support of Education (CASE) was established in 1974 it adopted the new term institutional advancement to describe the activities performed by its members. Institutional advancement, or just advancement, encompasses not only fundraising or development but also the related activities of communications, marketing, and other programs for constituent relations. In other words, institutional advancement has a meaning similar to the original concept of development—a long-term and broad-based program to build an organization or institution. In the decades since CASE’s founding, “advancement” has been widely adopted by colleges and universities and also has gained currency in nonprofit organizations more broadly. Ironically, it also has come to be used synonymously with fundraising by many people. It is not uncommon to meet people who work in the “advancement office,” whose titles include “development” and, if asked what they do will respond, “fundraising.”

Motivations for Giving

The question of what motivates donors is of obvious practical interest to nonprofit managers in determining which of their needs may be met through philanthropy and in designing their fundraising programs. Donor motivation is also a topic that has generated a substantial body of research. Let’s look at motivation from the perspective of the three principal sources of giving—corporations, foundations, and individuals. Although they are the largest source of gifts, we discuss individuals last because their motivation is the most complex.

Understanding Corporate Philanthropy

Corporations make philanthropic gifts both directly and through foundations that some have established as separate nonprofit entities. Using a foundation offers advantages over direct giving by the corporation, including the ability to add resources to the foundation in highly profitable years and then sustain a relatively even level of giving in years when the business may not be as profitable. Corporations make cash gifts and also gifts of products, known as gifts-in-kind. Corporations also support nonprofits through a variety of partnerships, which, as the term implies, offer benefits to both the nonprofit and the business. These partnerships are sometimes complex and represent a growing component of nonprofit revenue. Although they provide financial benefit to many nonprofit organizations, they are not “philanthropy,” since the company expects a financial return as well as a benefit to the nonprofit partner. Some types of nonprofit–corporate partnerships are discussed in Chapter 14 because the revenue they produce is earned income to the nonprofit.

Corporate philanthropy is a relatively recent phenomenon. Indeed, prior to the case of A. P. Smith Mfg. Co. v. Barlow in 1953, the courts imposed restrictions on corporate giving that did not directly benefit the interests of shareholders or employees of the firm. This landmark case opened the door to the concept of enlightened self-interest, that is, the idea
that companies could make gifts that might not have a direct or immediate benefit to the bottom line, but that would generally help maintain a healthy society in which to do business.

Corporate giving generally increased during the decades of the 1960s, 1970s, and 1980s, and its purposes often reflected the interests and affiliations of the senior executives and directors of the company. However, during the 1980s and with increasing momentum in the 1990s and 2000s, corporate giving became professionalized. Many companies created committees to make decisions about where to direct the corporation's giving or created separate foundations to undertake philanthropy in the company's name.

Since the mid-1980s, corporate giving has increasingly reflected an approach known as strategic philanthropy—that is, giving according to a plan that relates the corporation's philanthropy to its overall strategic and business goals. Giving is viewed as an investment and is subject to evaluation based on how much return it produces—the extent to which it enhances the corporation's competitiveness. For example, a corporation might target its giving in communities where it plans to develop new facilities or to specific groups of people who are likely to be customers of its products. The various nonprofit–corporate partnerships discussed in Chapter 14, have evolved from the strategic philanthropy approach. Today, the line between corporate philanthropy and marketing has become blurred, as has the line between fundraising and negotiating business relationships. Indeed, in 2004, the Association of Fundraising Professionals (AFP) thought it necessary to amend its code of professional ethics, which had long required that fundraisers not accept compensation based on a percentage of gifts, to include a similar prohibition with regard to the solicitation of corporate partnership arrangements (Hall, 2005).

To understand the motivation for corporate giving, a nonprofit needs to understand the company's business plans and goals on which its program of philanthropy is likely to be based. This is not to imply that corporations give in a way that is detrimental to the interests of nonprofits or society or that their motivations should be viewed as insidious. Many companies have principles of social responsibility to which they faithfully adhere and which include giving. Nevertheless, the realities do suggest that nonprofits begin their search for corporate dollars not in terms of their own needs but rather with a view to how there can be a mutual benefit to the nonprofit's welfare and the interests of the corporation from which it seeks support.

**Foundation Giving**

It is not difficult to understand the motivations for giving by foundations. Very simply, that is what they exist to do; indeed, it is what they are required to do as a condition of their tax-exempt status. Foundations are required to expend a minimum of an amount equivalent to 5 percent of the value of their invested assets each year. Those expenditures can be for grants or for operating expenses of the foundation, although there are some limitations on the operating expenses that can be counted within the 5 percent.

Foundations are created by corporations, individuals, or families and their activities generally reflect the interests of the founders. **Family foundations** are a type of independent foundation in which the board is dominated by members of the donors’ family. They often evolve as they grow, expanding their boards beyond family members, employing professional staff, and developing formal programs and guidelines that make explicit their interests and priorities. Many foundations have geographic and other restrictions on their giving and have well-defined areas of interest and grant programs through which they provide support. Many provide guidelines on their websites that identify their priorities and any limitations on their grant making. It is fruitless for an organization to approach a foundation for support if it does not operate programs related to the organization’s activities or has policies and priorities that exclude the organization from consideration. Because foundations are rational donors, obtaining foundation support often requires preparation of a written proposal. The art of
doing so is often called grant writing, although the seeker is indeed writing a proposal, not a grant—the grant is made by the foundation, and if the grant is “written,” the writing would be done by a foundation official. Proposal writing thus is a more accurate description of what a nonprofit organization or a member of its staff does. This text does not go into detail on the techniques of proposal writing, but many good guides are available, and organizations such as AFP and the Foundation Center offer training on the topic. Box 13.1 provides an outline of a typical foundation proposal, although each should be tailored to the guidelines and requirements of the specific foundation to which the proposal is being directed.

Other types of foundations include operating foundations that support their own programs and generally do not make grants to other organizations. In addition, as discussed earlier in this book, some public charities use the term foundation in their names, although they both raise money and distribute it, usually to a single organization or a defined community. Operating foundations usually are not good fundraising prospects for other nonprofits, nor are most foundations that are public charities, although some community foundations have discretionary funds that may be available to nonprofit organizations in their areas.

Motivations of Individual Donors

The motivations of individual donors are more complex and less calculated than those of corporations or foundations. They involve such fundamental matters as emotions, values, and psychological needs.

Individual donors have been the focus of a substantial number of research studies. In a 2011 review, René Bekkers and Pamala Wiepking provide a comprehensive overview of the academic research on the topic to that time. Most studies have examined characteristics that distinguish donors from non-donors and have identified statistical relationships between giving and certain characteristics, for example, age, gender, income level, and geographic

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**Box 13.1 Components of a Typical Proposal**

- Executive summary
- Statement of need
- Project description
- Methods
- Staffing/Administration
- Evaluation
- Sustainability
- Budget
- Organizational information
- Conclusion
- Appendices and supporting materials

*Source: Adapted from Grantspace: A service of the Foundation Center (http://grantspace.org/training/self-paced-elearning/proposal-writing-short-course#components).*
location. They explain who gives, but not why. Fewer have explored the more complex question of donor motivation.

Traditionally, the literature has been divided between those who attribute giving to altruism—those who say that individuals are driven by their nature to help others and improve the human condition—and those who say that individuals give to obtain some benefit for themselves, perhaps recognition, social position or control, or just warm feelings. One important influence on individual donors is social relationships. While theories about social influences on giving apply to traditional fundraising strategies, they also can be observed at work in more contemporary strategies. Think about peer-to-peer fundraising that occurs on social media. The desire to be part of a group and to demonstrate support for a friend’s efforts motivates others to give, perhaps even to causes that are not a priority for them personally (Worth, 2016). Paton (2007) argues that there may be a continuum of motivation from pure altruism to pure self-interest, as depicted in Figure 13.1.

A 1994 study by Russ Prince and Karen File identified seven motivational types that some fundraising practitioners find to be intuitively attractive. According to these authors, the largest group of donors (26 percent) is made up of “communitarians,” motivated by the belief that giving makes good sense in terms of a better community for their businesses and lives. Another 21 percent are the “devout,” who give because of their religious beliefs. The third-largest group is the 15 percent that Prince and File call “investors.” These are donors who are particularly concerned with the tax and estate benefits of giving and will be interested to know exactly what result will be accomplished with their support. “Socialites,” 10.8 percent of donors, give because it provides opportunities for social interactions; they are often people who will attend charity events. The “altruists,” the selfless donors who may give without any desire for recognition, comprise another 9 percent. “Repayers,” who give based on gratitude for benefits they have received, make up 10.2 percent. The final category, the “dynasts,” are people who give because it is a family tradition; they constitute another 8 percent of donors (Prince & File, pp. 14–16). Different types of donors gravitate toward various nonprofit subsectors; for example, the devout tend to support religion, the socialites give to arts organizations, and repayers often direct their support to universities and hospitals that may have influenced their own or their family members’ lives.

In the early 2000s, Paul Schervish and John Havens of the Social Welfare Research Institute at Boston College studied social-psychological factors influencing the giving of wealthy individuals and identified several “dispositions” or “inclinations” that motivate individuals to engage in significant philanthropy. These inclinations include hyperagency, the ability to make history and affect the conditions under which people live; identification, the unity of self-regard and regard for others; and consideration of income and estate tax benefits. The authors deemphasize the impact of tax incentives, arguing that their data suggest that as wealth increases, individuals gain a preference for leaving their estates to charity rather than to heirs. They speculate that removal of estate taxes thus would result in more money becoming available for bequests to nonprofit organizations (Schervish & Havens, 2001).

![Figure 13.1 Continuum of Motivation](image-url)

The influence of tax incentives on giving is controversial. In self-reports by donors, the importance of the charitable deduction is often minimized. Research sometimes tells a different story. Based on a meta-analysis of studies over 40 years, John Peloza and Piers Steel (2005) acknowledge a lack of consensus, but conclude that “changes in tax deductibility indeed appear to have a marked effect on charitable giving” (p. 269). Some studies addressing this topic may be flawed because they ask people to say what they would do under certain hypothetical circumstances rather than analyzing data reflecting actual past behavior.

The mathematics of giving and taxes suggests that tax rates may influence the amount that individuals are able to give, regardless of what their desire to give might be. For example, assume that an individual in a 35 percent income tax bracket makes a gift of $1,000 that is tax deductible. Because of the deduction, the donor’s income is reduced by $1,000, which reduces his or her income tax bill by $350 below what it would otherwise have been (35 percent of $1,000). That makes the out-of-pocket or actual cost of the $1,000 gift $650, since there is a tax savings of $350. Now, assume that the donor’s tax rate has been reduced to 10 percent. The $1,000 gift now saves $100 in taxes, making its out-of-pocket cost $900. Although it may seem counterintuitive, a lower tax rate increases the cost of a gift. Depending on donors’ overall financial position, this could have the effect of making it more difficult for them to give as much as they otherwise might have been able to, regardless of how highly motivated they might be to give.

The question of how tax policy affects charitable giving became particularly relevant following passage of the Tax Cuts and Jobs Act of 2017, applying to federal income taxes for 2018 and subsequent years. This law increased the amount of the standard deduction, resulting in fewer people who would itemize their deductions at all, including charitable gifts. In addition, the law reduced tax rates. As the hypothetical example demonstrates, this would have the effect of actually increasing the out-of-pocket cost of gifts for some taxpayers. The 2017 act also increased the number of estates that would be exempt from the federal estate tax. While some scholars argue that this will make more money available for charitable bequests, others argue that it may provide less incentive to make a bequest, since it raises the cost of giving (Carrns, 2017).

The preponderance of research suggests that the motivations of most individual donors are mixed, including some combination of altruism and self-interest, and that tax policies have an impact on the amount that individuals are able to give, whether during their lifetimes or through their estates on their death. Both topics are likely to remain controversial and the focus of future research.

With the increasing diversity of the American population, a number of studies in recent years have examined the particular giving traditions and patterns of various groups, including women, African Americans, Hispanics/Latinos, and members of the LGBTQ community. The topic is of increasing interest to many nonprofits, as greater wealth is being accumulated by women and members of minority groups. Students will find additional reading on this topic suggested at the end of this chapter.

The Fundraising Process

Some people may think of fundraising as synonymous with asking for money, but it is indeed a process with identifiable stages and steps. Without following the process, fundraising is random and not really very different from standing on a corner with a tin cup, hoping that some passerby will drop in a few coins. That is not an approach that is likely to generate the substantial and continuing support needed to sustain an organization.

The fundraising process is depicted in Figure 13.2 and includes six basic steps. Once an organization has (1) identified its priorities for financial support and developed a case to
justify its goals, it must (2) identify the prospects most likely to give. (3) A process of cultivation develops a relationship between the organization and the prospect and, at the appropriate point in the relationship, (4) the prospect is asked (solicited) for a gift. (5) The gift is acknowledged and the donor is recognized. (6) The organization then works to properly steward the gift, keeping the donor engaged and informed of what it has accomplished with the support provided. The process is usually described as a cycle because effective fundraising programs seek to develop a base of donors who continue to give on a regular basis. **Stewardship** is really part of the process of continued cultivation of donors who may provide additional, and it is hoped increased, support in the future. Let’s walk through each step in the process in greater detail.

### Identifying Priorities and Developing the Case

Fundraising without a purpose is unlikely to elicit support. As Thomas Broce (1986) writes in his classic book, “Donors give gifts to meet objectives, not simply to give money away” (p. 19). This reality requires that an organization base its fundraising on identified priority needs related to achievement of its mission and rooted in a plan for its future growth and improvement. Strategic planning is often the first step in setting the organization’s vision and goals for the future, which can be translated into specific fundraising objectives with a rationale for why the support will enhance its ability to achieve its social mission.

The organization must develop a case for support, or a rationale for giving, that goes beyond its own needs and links its goals to broader social and human purposes. An organization’s leaders may be convinced of its worthiness and the importance of its financial needs, but in a competitive philanthropic marketplace, they must make the case for how support for its purposes will bring a greater benefit than a gift to another organization or cause. To illustrate this point, Box 13.2 presents summaries of two arguments, or cases, for the support of the (fictional) Siwash College. Case #1 is based entirely on what its faculty and students perceive to be important to them and on the institution’s self-interest. The needs may be real, but this statement is unlikely to inspire many donors to sacrifice in order to address them. In contrast, Case #2 explains Siwash’s need for philanthropy in relation...
Part IV  |  Obtaining and Managing Resources

Box 13.2  The Case for Support

Siwash College Case #1

Our classrooms are crowded, and we have inadequate office space for the faculty. Colleges are competing for the best students with offers of scholarship support. The college’s enrollment has increased in the past decade, but we now have fallen behind our competitors in the quality of our facilities and the amount of financial aid that we can provide. We are losing many of the best students to other institutions. For this reason, we are seeking $10 million in funds for new campus construction and scholarships that we will offer to the students from our region who have the highest SAT (Scholastic Aptitude Test) scores.

Siwash College Case #2

The United States always has been a nation of economic opportunity. Today, as we face great challenges from global economic competition, the talents of too many young men and women are undeveloped because they lack the financial means to attend college. College tuition has risen dramatically, and financial aid has not kept pace. This is unjust and threatens America’s future economic prosperity. Educational opportunity always has been fundamental to the mission and values of Siwash College. The board of trustees has established a plan to maintain our tradition by expanding enrollment and providing additional scholarship support for young men and women of our region. To that end, we seek $10 million in support to expand our facilities and increase scholarship support to promising and worthy students.

to social justice and economic prosperity, helping place its needs in a broader context and appealing to the values and emotions of potential donors.

The case for support should provide the reason the organization seeks support, derived from its mission and values—it is the answer to the questions, “Why should I give to this organization?” and “Why is this cause more important than others that also ask for my support?” It is often expressed in a case statement, a document that may include a comprehensive discussion of the organization’s fundraising objectives and the justification for each. Case statements may be developed to provide a resource within the organization, an internal case statement, or as a printed or electronic document for use in communicating with donor prospects, an external case statement. It is also common to produce a video, which expresses the case statement in a visual format. It is important not to confuse the product known as the case statement with the idea of the case. An organization that rushes to produce a glossy brochure or website without careful thought about the essence of its case is unlikely to successfully address the motivations of donors, whether corporations, foundations, or individuals.

Identifying and Qualifying Prospects

Just as an individual seeking a marriage partner likely would not do well by texting people at random or by proposing to strangers on the street, an organization seeking gift support needs to focus on prospects who offer a better-than-average chance of giving. Otherwise, its time and fundraising resources will be allocated inefficiently and ineffectively. The identification of prospects begins by limiting the search to those who have the financial ability or capacity to give. Obviously, an individual or company in bankruptcy or a foundation that has already allocated all its resources would not be worthy of further attention. They might have a keen interest in the nonprofit, but their financial inability would preclude considering them as
prospects. However, making a list of successful companies and wealthy individuals still does not provide likely prospects for a particular nonprofit; it would be a large list and include many who are remote or already deeply committed to other causes. It would be like making a list of marriage prospects that included every single person in the world; they might have the ability to consider marriage, but it would still be a fruitless task to send proposals to all of them. The list would need to be culled by some additional criteria. For example, it might help to limit the search to people with whom the marriage seeker already has some connection—maybe schoolmates, individuals who attend the same church, or friends of friends. And, being single does not automatically imply a desire to be married, so it would be wise to limit the list of prospects to those who may have indicated some interest in getting married. (It is instructive to observe that online dating sites do provide tools for screening a large pool of people in order to identify those with the ability and desire to marry and who have some interests in common with the searcher—the matching is not random.)

Like marriage prospects, the most likely prospects for charitable gifts will be those who have not only the ability to give but also some linkage to and interest in the organization or the area of activity in which it is engaged (Seiler, 2016, p. 32). A prospect is described as “qualified” only when both financial capacity and potential interest have been determined. Identifying individuals, foundations, and corporations who are prospects is a task often performed by professionals engaged in prospect research, a specialty increasingly in demand by nonprofit organizations with sophisticated fundraising programs. Prospect researchers have a variety of tools and techniques, including a growing array of electronic databases, to help narrow the list to those with the greatest likelihood of making a gift to their organizations. Financial ability may be easily determined for foundations, on which information is readily available in published sources. Corporations may be somewhat less easily assessed, but some indication of ability to give may be assumed from revenue and profits. Individuals present more of a challenge. Although public information can help determine levels of income and wealth—for example, real estate values—some wealth will be less visible.

Linkage to the organization may occur in a variety of ways. Volunteers, graduates, and former patients or their families have obvious connections to the organizations that have served them. Other types of nonprofits may need to build their network of prospects in a pattern similar to concentric circles, beginning with those who are already part of the organization’s inner circle of friends and donors, then moving outward to less-connected members of the community. The organization’s governing board is its principal link to the outside world and, absent an easily identifiable constituency of potential donors with direct linkage, board members’ efforts in identifying and engaging prospects among their own business and social contacts may be important.

Interest may be relatively easy to determine for a foundation, if it provides a clear statement of its priorities. Some corporations that have formal giving programs offer similar clarity about their interests, while in other cases, interest may be presumed because the company’s business activities bear a close relationship to the work of the nonprofit. For example, a home builder or a mortgage lender may have an interest in the issues of homelessness and affordable housing; similarly, companies that manufacture products for use by women are often among the most prominent contributors to nonprofits that address women’s issues or diseases. For individual prospects, interest may be revealed by past gifts to the organization or perhaps gifts to another organization addressing similar issues or needs, but often an individual’s interest can be determined with confidence only through personal contact and discussion.

Cultivating Prospects

To invoke again the metaphor of courtship, most people would not consider proposing marriage on the first date. The odds of such a proposal gaining a positive response are increased if some time and effort have been devoted to cultivating a relationship, perhaps
involving smaller steps such as having dinner and going to the movies. A nonprofit cultivating a prospective donor likewise will increase the chances of gaining support if it devotes some time and attention to cultivating a relationship before moving to solicit a gift. The larger the amount of the gift to be solicited, the greater the investment that will need to be made in cultivating the relationship in advance of asking.

In fundraising for small gifts, solicitation may not require significant cultivation. For example, very little cultivation precedes broad-based solicitations by mail, phone, or the Internet. However, fundraising for a major gift involves developing and executing a series of planned initiatives expected to move an individual toward a closer relationship with the organization, leading to support. Major-gift fundraisers manage and track such activity through what are known as moves management systems.

**Soliciting the Gift**

Nonprofit fundraisers have an array of techniques available for soliciting gifts, and a full discussion is beyond the scope of this chapter. Box 13.3 provides a summary of some commonly used methods and the advantages and disadvantages of each. In general, the more personal the contact, the more effective it is. Personal solicitations and mail or e-mail that include a message tailored to the individual being asked are more effective than communications that are very impersonal, such as broad-based mailings. On the other hand, direct mail remains a popular method of soliciting gifts, especially from older donors, and provides something tangible—a letter and/or a brochure—that an individual may retain and reread sometime after its receipt. This may even be an advantage over e-mail, which many people skim and delete.

The selection of methods employed by a nonprofit depends on several considerations. First, the method used must be appropriate to the level and type of support that the organization needs. Soliciting by direct mail, by phone, or through e-mail may be appropriate to secure a large number of relatively small gifts on a recurring basis to support the current operating budget. Major gifts to address capital or endowment needs will require personal contact and time for a full discussion of the organization’s plans and the purpose that will be achieved through the gift. If the gift being requested is for the organization’s endowment, the personal contact with the prospective donor may need to be prolonged, in order to fully explore the individual’s desires about his or her legacy to society beyond his or her lifetime. The use of social media and crowdfunding may be effective in raising funds for one-time projects that generate excitement, but may not lead to the ongoing support on which many organizations rely. Most gifts made in response to a challenge from friends or celebrities are likely to be relatively modest, not major gifts.

A second, related consideration would be the costs and benefits of the method selected. Personal solicitation, by fundraising staff or volunteers, is generally more effective than solicitation by phone, mail, or e-mail, but it may also require a substantial commitment of time by the CEO, a development officer, and perhaps a volunteer; it may also involve costs for travel. Personal visits are to be reserved for the most promising prospects for the largest gifts. Personalized letters are generally more effective than impersonal, “Dear Friend” letters, but they also require more labor or more sophisticated technology to produce. The expected better returns always need to be balanced against the costs of a particular method. Third, an organization needs to consider what resources are available to it at particular points in its organizational life cycle. For example, a nonprofit that has little visibility, no clear donor constituency, and a fundraising program that is just beginning, may find special events to be a useful method for engaging new people, increasing its visibility in the community, and raising some funds. Fundraising or benefit events are not an especially effective way of raising money, and the costs of producing them may in fact consume much or all of the gross
### Box 13.3 Common Solicitation Methods: Advantages and Disadvantages

<table>
<thead>
<tr>
<th>Method</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| **Personal solicitation** | - Focused attention of prospect  
- Includes nonverbal cues  
- Builds relationship | - Expensive  
- Low volume |
| **Direct mail** | - Inexpensive  
- Creates a visual image  
- Long life (may be kept and read again later)  
- Can communicate complex message | - Easily ignored, lost in clutter  
- Requires donor initiative to make gift  
- Limited ability to personalize |
| **Telemarketing** | - Two-way communication  
- Can negotiate gift  
- Can tailor message to individual  
- Immediate gift (credit/debit card) | - More expensive than mail  
- Barriers (caller ID, mobile phones)  
- Intrusive |
| **Events**      | - Visibility/involvement  
- May provide first contact with potential new donors | - Not usually cost-effective (hidden costs)  
- Sometimes the event makes no connection to the cause |
| **E-mail**      | - Inexpensive  
- Can personalize/segment message  
- Interactive/relationship building  
- Immediate gift | - E-mail list maintenance  
- Barriers (e.g., spam filters, overload) |
| **Crowdfunding** | - Inexpensive  
- Generates interest  
- Mobilizes networks | - More useful for one-time projects rather than ongoing support  
- Requires exciting cause that will go viral |
| **Text**        | - Inexpensive  
- Immediate response | - Limited content  
- Intrusive  
- Barriers to follow up with donor |
revenues. However, if they can be used as a strategy for developing a new group of interested friends who may later be solicited for gifts through more effective methods, including mail, phone, and personal contact, then they may play a useful role in a comprehensive fundraising strategy.

Fourth, the nonprofit organization should adopt the solicitation method that is most likely to reach its target audience. For example, direct mail is effective with older donors, who have time to read letters, may be uncomfortable with providing credit card information on the telephone or over the Internet, and may not use other forms of electronic payment, such as PayPal. Events or the Internet may be a better way if the organization is hoping to reach younger donors, who may not respond to direct mail.

Again, the organization's position in its life cycle is important to consider and will determine the type of philanthropy that can be attracted. For example, a young organization, perhaps with a somewhat uncertain future, would be unlikely to attract significant bequests for its endowment. Many people would question whether it would use such gifts effectively or whether it provides a lasting purpose for their philanthropy. However, a well-established nonprofit that continues to raise funds through events and e-mail and does not solicit larger gifts is not maximizing its long-term revenue potential. In other words, the methods used to raise funds, and the purpose for which they are raised, must match the realities of an organization's financial needs and philanthropic market—or, as architects say, form should follow function.

E-mail, Portals, Social Media, and Social Networking

Direct mail remains a primary source of gifts and of new donors, but giving online is growing at a rapid pace, having increased by 7.9 percent in 2016 alone (Blackbaud Institute for Philanthropic Impact, 2016, p. 4). The most common method of online solicitation is e-mail. The purpose of the e-mail is to drive donors to the organization's donation page. This page may be maintained by the organization itself or it may be operated by an outside vendor, such as Network for Good (www.networkforgood.org), which provides back-office support for processing online gifts. Soliciting gifts through e-mail follows many principles that are similar to those for direct mail. It starts with list development and requires continuing attention to list maintenance. As in direct mail, e-mail lists can be segmented to deliver personalized messages and costs can be very low. However, as with all methods, there are disadvantages, as well, including the use of spam filters and the ease with which prospective donors can delete a message from their crowded in-box without opening it. Many organizations make effective use of e-mail to stay in touch with current and past donors and even to discuss or negotiate the terms of a major gift, but such gifts will generally require some other form of contact, usually in person (Network for Good, 2014).

A growing number of nonprofit organizations are using social media as a tool for communicating, building a constituency, and advocating a cause (as discussed in Chapter 11). Some are also benefitting from fundraising events organized through social networks and the capabilities of social media platforms are expanding, suggesting that they are likely to become more important tools for fundraising in the future. Social networks are especially useful in peer-to-peer fundraising, in which friends invite friends to participate in such activities as walks and runs. As Julie Dixon and Denise Keyes (2013) emphasize, social networks enable individuals to become advocates, or “cause champions” for organizations and causes, bringing value beyond their own giving. Again, fundraising through social media is likely to grow as the capabilities of those platforms continue to evolve.

Crowdfunding sites have received increasing attention. They include sites such as Kickstarter (www.kickstarter.com), which enables individuals to support creative projects, and Donors Choose (donorschoose.org), through which individuals can support specific needs of classroom teachers. Other well-known sites include CauseVox (www.causevox.com),
Fundly (fundly.com), Razoo (www.razoo.com), and indiegogo (www.indiegogo.com). All have unique features. These sites have proven effective in raising funds for projects, but may be less useful for developing ongoing support. For example, a campaign on indiegogo in 2012 raised almost $1.4 million to build a museum in honor of electricity pioneer Nikola Tesla (Bray, 2013, p. 104). In 2015, the Smithsonian Institution launched a crowdfunding campaign to preserve the space suit worn by Neil Armstrong on the moon. It reached its goal of $500,000 within five days and extended the campaign to raise an additional $200,000 to preserve the suit worn by Alan Shepard, the first American in space (McGlone, 2017).

In order to be successful, a crowdfunding appeal needs to go viral. That may only occur if it is something especially exciting or urgent. If the organization intends to raise the funds from its established constituency, then other strategies may be more effective in reaching them. According to Ilona Bray (2013, pp. 104–105), crowdfunding may be an effective strategy only under specific circumstances, including the following:

- [The organization] has a particular, tangible goal in mind, such as a new piece of equipment; a trip to a project site; medical care for an individual; production of a film; or a time-delineated concept around which to fundraise, such as a matching grant.
- [The organization] can confidently predict that the goal is sufficiently exciting, moving, or fun that [its] existing supporters and social media contacts will tell their friends about it and they, despite knowing little to nothing about [the] organization, will be moved to pitch in.
- [The organization] has the skills to present the idea in an attractive way, preferably complete with photos, graphics, and videos.

Some nonprofits also have used text messaging as a method for soliciting and receiving gifts. For example, texting was a significant component of giving to the Red Cross following the earthquake in Haiti in 2010. Readers interested in knowing more about this method may wish to review the standards for mobile giving developed by the Mobile Giving Foundation, which is sponsored by several telecommunications providers (http://www.mobilegiving.org/about/).

The technology of fundraising is in transition. It seems likely that an increasing proportion of dollars will come through online and mobile giving in the years ahead, but the traditional methods of direct mail and phone calls remain important; indeed, these methods remain the backbone of fundraising for many organizations. The continuing effectiveness of direct mail, along with the growing importance of online giving, suggests that nonprofit organizations need to pursue a multichannel strategy, combining new technologies with traditional methods. For some, the costs of doing so may be daunting, but there may be little choice except to invest in growing new technologies while also maintaining traditional programs in order to meet current fundraising goals. Remember, however, it is essential that the use of the various channels be integrated and consistent in the messages that are delivered.

**Acknowledging and Recognizing Donors**

Well-managed development offices acknowledge gifts promptly, and most tailor the acknowledgment to the level of the gift or status of the donor. For example, donors of gifts above a certain level may receive a letter, e-mail, or phone call from the CEO. Others may receive a letter or e-mail from the director of development. Small gifts may be acknowledged only with a preprinted paper or online receipt. Nonprofits are required by law to provide and donors are required to have a formal receipt in order to deduct cash gifts of $250 or more from their taxes. Additional rules apply to the substantiation of the value of gifts-in-kind.
Recognition of donors may include listing their names in an annual report or on the website, including them in special recognition societies according to the level of the gift, and displaying their names on plaques or wall displays. Larger gifts may be recognized through the naming of facilities or endowment funds. While some donors may request anonymity, most appreciate tasteful and appropriate recognition, which itself becomes a part of the process of cultivation for the next gift.

**Stewarding the Gift and the Relationship**

The stewardship of past donors is an activity that has received more attention in most development offices in recent years. Experience suggests that past donors are the best prospects for future gifts, and it is therefore important to continue building their relationship with the organization after a gift has been made.

The concept of stewardship can have two meanings. The most common usage encompasses the activities that the organization undertakes to keep the donor informed and engaged. These may include sending reports about the impact of the gift and developing events to strengthen donors’ involvement and knowledge about the organization’s activities. Stewardship is essentially the cultivation of current and past donors with an eye toward future support. The second meaning of stewardship is more substantive, relating to the organization’s responsibility to manage the gift according to the donor’s intention, that is, to keep faith with the donor. This is especially important with gifts made to endowment, which are invested in perpetuity to produce income supporting current programs. Many organizations have developed regular written reports to endowment donors, informing them of the fund’s financial performance as well as the activities undertaken with the income it produces. Some have developed websites where donors can receive updated information on the impact of their gifts; for example, they can read the biographies of students who are receiving scholarships that the donors have funded. Recent legal cases involving claims by donors or their heirs that gifts are not being used as originally intended have caused nonprofit organizations to exercise greater care in documenting the mutual understandings of the donor and the organization in formal, written gift agreements.

Although the previous discussion has mostly involved individual donors, it is important to note that the fundraising process is essentially the same even if the donor is a corporation or a foundation. Corporate and foundation philanthropy may be more professionalized and giving decisions may be made more objectively than they are by individuals, but it is still essential to identify likely prospects based on what is called linkage, ability, interest (LAI); to cultivate the prospect’s interest; to solicit the gift in the appropriate manner at the appropriate time; to acknowledge the gift and recognize the donor; and to steward the gift and the relationship with the donor for the long run.

Corporate and foundation giving patterns may change over time as their strategies are redefined. They are less likely than individuals to develop an emotional connection to an organization and become regular, long-term donors. Indeed, while the individuals working in a corporation or a foundation may have personal feelings about the organizations it supports, the corporation or foundation itself is not a living thing capable of such relationships. Corporations and foundations thus support an organization so long as its activities are consistent with their goals—there is inevitably a quid pro quo element to their giving—and many limit their support to specific programs or activities and do not provide unrestricted gifts that can be used to meet general operating expenses, undertake capacity building, or address other organizational goals. Second, corporations and foundations are not mortal. Unlike individuals, they do not consider their giving over the course of an expected lifetime; they do not write wills or plan for the disposition of their estates. Understanding the giving behavior of individuals requires analysis of how they view their philanthropy at various points in their lives and how they develop giving relationships with favored nonprofits over
Individual Donor Life Cycles

The fundraising pyramid is a classic depiction of how individuals are believed to develop their giving relationship with an organization. It is a standard element of fundraising training and has been a part of fundraising theory for many decades. Depicted in Figure 13.3, the pyramid is broader at the base and narrows as the level of gift increases going toward the top, because a smaller number of donors will ascend to each successively higher level. The organization's constituency, that is, its database of prospects, contains the largest number and is thus the widest part of the pyramid. Some, but not all, prospects will provide annual gifts to support current operating needs. Of those who do become regular annual donors, some, but not all, may respond to special needs of the organization by making a major gift. The definition of a major gift will vary among organizations, depending on the overall levels of support they receive, but such gifts typically are at least five figures or more and are often pledged to be paid over a period of three to five years. Major gifts often come from the individuals' assets rather than current income, and many are paid using securities, real estate, or other marketable assets. Some, but only a few, of those who make major gifts will eventually make a principal gift to the organization. Like major gifts, principal gifts are defined by their size—they are large major gifts. Although definitions vary among organizations and institutions, it is common for gifts of $1 million or more to be identified as principal gifts. In large fundraising programs, relationships with prospects for such gifts are managed by a dedicated principal gifts staff member or team.

David Dunlop, a thoughtful fundraising practitioner with Cornell University for many decades, defined many of the terms used in major gifts fundraising. He identifies three types of gifts that people make, and they generally correspond with the annual, major, and principal gifts depicted in the fundraising pyramid. In Dunlop's (1993) terminology, regular gifts are the ones that people make on a recurring basis, usually to support the annual fund. Dunlop's special gifts are those that individual donors make to meet some nonrecurring need of the organization, for example, a capital project or perhaps a campaign to increase the organization's endowment assets. They are stretch gifts, meaning that giving them requires some real sacrifice on the part of the donor. Some individuals who make regular gifts and

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**Figure 13.3 The Fundraising Pyramid**

- Ultimate gifts
- Principal gifts
- Special gifts
- Major gifts
- Annual gifts
- Regular gifts
- Total constituency

*Note: The terms regular, special, and ultimate gifts were introduced by Dunlop (1993).*
periodically stretch to make special gifts will develop a lifelong relationship with a nonprofit organization, making it the beneficiary of their ultimate gift. In Dunlop’s definition, an ultimate gift is not necessarily the individual’s last gift, but rather “the largest gift that the person is ultimately capable of making” (p. 98). Some individuals make their ultimate or largest gift while living; others make their ultimate gift in the form of a bequest or other charitable provision that takes effect on their death. It is not unusual for ultimate gifts to be made to endowments, usually to large nonprofits such as universities and museums or to establish or enhance a foundation created by the donor.

Although the fundraising pyramid has been used for a long time to show how individual donors develop their relationships with favored organizations and as an analytical tool to describe the outlines of an organization’s donor constituency, some question whether its principles still apply. Many donors today are entrepreneurial donors, and many of them are relatively young individuals who have made their fortunes as business entrepreneurs. They tend to approach giving like investing, preferring to fund organizations that are engaged in cutting-edge approaches rather than traditional programs. They wish to be actively involved in an organization rather than be a passive donor. They may select organizations based on their demonstrated performance rather than on the basis of traditional loyalties. Their first gift may indeed be a major gift if it supports a program of particular interest to them and one that is consistent with their own social values.

To the extent that there is a new generation of philanthropists whose behavior is markedly different from that of previous donors, the traditional fundraising pyramid may have less validity. However, many of the new donors are also relatively young people; what has changed is that wealth is now held by individuals at earlier ages than in the past. Whether their giving behavior will become more traditional as they age is a question to which there is yet no answer. It is also possible that individuals will engage in both traditional and strategic philanthropy, following the patterns suggested by the pyramid for some of their giving but engaging in more investment-like giving as well.

Another criticism of the fundraising pyramid is that it describes a situation most applicable to large nonprofit institutions, such as universities, and that it is less relevant for smaller nonprofits. Colleges and universities have natural lifelong relationships with their graduates, and most have sufficient financial stability that they can patiently nurture relationships leading to ultimate gifts. For many nonprofits in urgent need of increased support to balance current budgets, the distant promise of an ultimate gift may seem unworthy of too much time and effort today. However, as Dunlop (1993) emphasizes, most organizations have at least a few close friends and donors with whom they should be cultivating long-term relationships with the hope that they will eventually produce the level of giving that can be transformative.

**Planned Giving**

A rapidly growing component of philanthropy includes gifts that are made in connection with individuals’ financial or estate planning, known as planned gifts. Many major gifts today do involve the use of sophisticated financial instruments, and planned giving has become a major subfield within the fundraising profession. Experienced planned giving officers, or gift planners, are highly sought after by all types of nonprofit organizations. The aging of the U.S. population and the increasing wealth held by older people suggests that this form of giving will grow in importance in coming decades.

As shown in Table 13.1, there are three basic types of planned gifts: outright planned gifts, expectancies, and deferred gifts. Some outright gifts are planned gifts because they involve complex assets, such as stocks or real estate, and may require the assistance of financial experts to complete. An expectancy is a promise that a donor makes to provide a gift to the organization at some future time, generally at death, through a bequest, life insurance, or a retirement plan. Deferred gifts are gifts that the donor makes now, but which are not available
<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Most Attractive to…</th>
</tr>
</thead>
<tbody>
<tr>
<td>OUTRIGHT GIFTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gift of appreciated property</td>
<td>Individual gives an asset, for example, stock or real estate, which has a value greater than what was paid to acquire it (cost basis).</td>
<td>Individuals who wish to receive an income tax deduction for the full value of the asset and avoid paying a capital gains tax on its sale.</td>
</tr>
<tr>
<td>Donor-advised fund</td>
<td>An individual irrevocably transfers assets to a fund, maintained by a community foundation or other charitable entity. The donor (or other designated individual/s) retains the right to recommend recipients of gifts to be made from the fund but cannot direct or require the distributions.</td>
<td>Individuals who wish to earn an immediate income tax deduction for their gifts to the donor-advised fund but to have the funds paid to one or more nonprofit organizations in the future. This may be the case with individuals who have a year in which they receive unusually high income, for example, upon sale of an asset or a business.</td>
</tr>
<tr>
<td>Lead trust</td>
<td>An individual places assets in a trust, which is managed by a trustee. The trustee pays income earned by investments of the trust to a nonprofit organization for a specified period of years. At the end of that period, the trust ends and the assets are returned to the donor, the donor’s heirs, or to other named beneficiaries.</td>
<td>Individuals who own income-producing assets, do not need the income they produce, and wish to make gifts to a nonprofit organization. There are also potential estate tax savings if the assets are ultimately returned to the donor’s heirs.</td>
</tr>
<tr>
<td>EXPECTANCIES (TESTAMENTARY GIFTS)</td>
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<td></td>
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<tr>
<td>Bequest</td>
<td>A statement in an individual’s will or revocable trust that designates a specific asset, amount, or percentage of the estate to be paid as a gift to a nonprofit organization upon the individual’s death.</td>
<td>Individuals who wish to retain control of their assets during their lifetimes and who seek a simple method of making a charitable gift at death.</td>
</tr>
<tr>
<td>Retirement plan or IRA</td>
<td>An individual names a nonprofit organization as the beneficiary of assets remaining in a retirement plan or IRA at the individual’s death. Alternatively, an individual can directly transfer funds from a retirement fund to a charity.</td>
<td>Individuals who wish to retain access to their retirement funds while living and who seek a simple method of making a charitable gift at death or individuals who wish to make a gift without having to claim the retirement fund withdrawal as income.</td>
</tr>
<tr>
<td>Life insurance</td>
<td>A nonprofit organization is named as the owner and beneficiary of a life insurance policy that will pay a benefit to the organization upon the individual’s death.</td>
<td>Individuals who can afford premium payments but wish to make a larger gift at death than their assets may permit.</td>
</tr>
</tbody>
</table>
to the organization until some future time, generally after the death of the donor or some other individual (Regenovich, 2016, pp. 269–281). Table 13.1 provides a brief summary of vehicles available for planned gifts; this chapter discusses only a few of the most common.

One of the simplest forms of a planned gift is a **bequest**, which is merely a statement in an individual's will or living trust dictating that on his or her death, some amount or portion of his or her estate is to be given to a charitable organization. Other planned gifts, for example, those using **charitable remainder trusts** and **charitable gift annuities**, are arrangements that provide for the donor or another beneficiary to receive lifetime income, with the charitable organization not gaining full use of the donated assets until after the death of the donor or the last income recipient. Such gifts provide a tax deduction for some portion of the gift, but not for the full amount, since the donor has a retained life income interest attributable to the non-charitable portion of the payment. In addition to qualifying for income tax deductions, donors may avoid or defer capital gains taxes on appreciated assets used to make a planned gift and, since the donated assets are removed from the donor's estate, there may be an estate tax saving, as well. As in our

### Table 13.1 (Continued)

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<th>Name</th>
<th>Description</th>
<th>Most Attractive to…</th>
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<tbody>
<tr>
<td><strong>DEFERRED GIFTS</strong></td>
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<tr>
<td>Charitable gift annuity</td>
<td>A contract between an individual and a nonprofit organization in which the organization agrees to pay a fixed lifetime income to the individual (or to another designated individual/s) in exchange for the gift. The income payments are secured by the full faith and credit of the organization. Some charitable gift annuities are immediate (the income starts as soon as the gift is made) and others are deferred (the income begins at some designated future date). There are other variations.</td>
<td>Individuals who wish to receive an immediate income tax deduction (for a portion of the gift) and receive a relatively secure but fixed lifetime income. A fixed income may be more attractive to older donors, who are less concerned with the effects of inflation over their remaining lives.</td>
</tr>
<tr>
<td>Charitable remainder trust</td>
<td>An individual gives assets to a trust. The trustee manages the trust and pays income to the individual (or to one or more other designated individual/s) for life. Upon the death of the last surviving income recipient, the trustee pays the trust's principal to a designated nonprofit organization. There are two basic types. Charitable remainder annuity trusts pay a fixed income. Charitable remainder unitrusts pay a variable income that is a fixed percentage of the trust's assets each year. Income payments would cease if the trust's assets became depleted. There are other variations.</td>
<td>Individuals who own appreciated assets and wish to avoid or defer capital gains taxes that would be payable if the assets were sold outside of the trust. Individuals who seek an immediate income tax deduction (for a portion of the gift.) The unitrust may be attractive to individuals who want the possibility of increasing income payments over their lifetimes and are willing to accept the risk of an income that may vary from year to year.</td>
</tr>
<tr>
<td>Life estate</td>
<td>An individual gives his or her personal residence to a nonprofit organization, retaining the right to continue living there for his or her lifetime.</td>
<td>Individuals who desire to use their homes as an asset to make a gift but also desire to continue living there.</td>
</tr>
</tbody>
</table>

earlier example, these tax benefits reduce the out-of-pocket cost of the gift, which can make the rate of income received by the donor an attractive feature.

Other planned giving vehicles include lead trusts and life estates. A donor may place an asset in a lead trust for a period of years, with the income being paid to the nonprofit organization. At the termination of the trust, the asset is returned to the donor or the donor's heirs. A donor who gives his or her personal residence to a nonprofit organization may retain the right to continue living in the property for the balance of his or her life, an arrangement that is known as a life estate. Donor-advised funds, maintained by community foundations and other managers of charitable funds, permit individuals to make a gift and earn a tax deduction currently, while reserving the right to make future recommendations on how the funds are to be distributed. It is important to recognize, however, that the donor does not have the right to direct gifts and can only make recommendations to the trustee of the fund.

Planned giving could be affected by changes in the federal estate tax enacted by the Tax Cuts and Jobs Act of 2017. Assets that a donor gives during life or at death are removed from the individual's estate, and thus, there is a tax saving, similar to the saving produced by the income tax deduction for gifts, as discussed above. However, the 2017 law significantly increased the amount of an estate that is exempt from the federal estate tax and all but wealthy individuals will never have to consider it in their financial or charitable planning. Some states do have inheritance taxes, which also may be part of the calculus for some donors. The law regarding donor-advised funds is a topic of recurring debate and future changes could affect the attractiveness of these vehicles to some donors. Students are encouraged to check with websites such as Independent Sector (www.independentsector.org) or AFP (www.afpnet.org) for up-to-date information on the law.

Planned giving is a complex topic, and a full discussion is beyond the scope of this text, but additional reading is recommended at the end of this chapter for those who wish to pursue a more in-depth understanding. The National Association of Charitable Gift Planners (https://charitablegiftplanners.org) is a professional organization of individuals who work in the planned giving field and offers important education and materials. There are also websites that provide cases, resources, and tools for planned giving professionals and some are listed at the conclusion of this chapter.

Campaigns

Fundraising campaigns have been a part of the nonprofit landscape since the early years of the 20th century, when the campaign method was developed by fundraisers for the YMCA. The model was later adopted by higher education institutions and subsequently by most other nonprofit organizations. Historically, campaigns were known as capital campaigns and were usually undertaken specifically to construct new physical facilities. Over the past three decades, however, many campaigns have become comprehensive, including within their goals not only funds for facilities but also endowment, operating funds, and support for programs. At any given time in most communities today, there will be highly publicized campaigns underway by multiple organizations, seeking funds for all these purposes. The dollar goals are often substantial and to be achieved typically in five to eight years.

What distinguishes a campaign from just ordinary fundraising? First, a campaign is intensive, ranking among the highest priorities of the organization and usually commanding a significant amount of time and energy from the CEO, board members, fundraising staff, and others. This intensity is created by two essential characteristics of a campaign—an announced dollar goal and a deadline. A campaign has defined objectives, that is, specific purposes for which the funds are being raised that are spelled out in campaign literature. The solicitation of gifts to a campaign follows the principle of sequential fundraising, in which prospects
are solicited in a planned sequence beginning with those closest to the organization and the most promising prospects, proceeding later to those who are less related or who are deemed to have less financial potential. This process helps raise the sights of prospective donors by offering the example of those who have already made impressive financial commitments. Finally, solicitations in a campaign request a specific amount that has been deemed realistic for the particular donor. Donors are rated according to their capacity to give and are solicited, in the appropriate order, for a gift at that level. Without meeting these essential conditions, a fundraising effort is not really a campaign. Thus, fundraising that aims to raise “as much as possible” or “as soon as possible” is, by definition, not a campaign, because it does not proceed against a specific goal that it intends to reach within a defined period of time. Solicitations that ask people to give as much as they can represent a collection, but not a campaign, which seeks specific gifts from donors deemed capable of making them (Worth, 2017b).

Campaigns proceed in phases, as depicted in Figure 13.4. They are rooted in the organization’s strategic planning, which defines goals and directions and financial needs. Planning for a campaign itself is a process that may encompass months or years and includes the identification of prospects, enlistment of volunteer leaders, and the hiring of fundraising staff. In order to maximize the solicitation of significant early gifts, and their impact on the sights of donors in later phases, a campaign is not announced to the public until a significant portion of its total goal has been raised. These early gifts comprise the campaign’s nucleus fund and are secured during what is known as the campaign’s quiet period or quiet phase. A formal kickoff of the campaign usually includes announcement of the overall goal, celebration of the amount already raised toward it as part of the nucleus fund, and recognition of nucleus fund donors. The kickoff is intended to establish momentum, generate good feelings, demonstrate that the campaign is likely to be successful, and inspire prospects who have not yet given to set their sights in relationship to what the nucleus fund donors already have done.

Following the kickoff, the campaign is in its public phase. Efforts to bring visibility to the campaign and its goals often become a significant component of the organization’s communication efforts for the duration of the campaign. Planning for today’s campaigns

**Figure 13.4 Phases of the Campaign**

[Diagram showing the phases of a campaign with labels: Organizational planning, Campaign planning, Nucleus fund (leadership gifts), Kickoff, Major gifts, Wrap-up, Celebration, Quiet phase, Public phase.]

*Source: Worth (2017b, p. 24).*
includes marketing and communication goals that are nearly as important to the organization as the financial goals addressed by the campaign. They have become tools for positioning organizations and, indeed, some campaign goals, especially in higher education, are often set at least in part to make a statement about the institution’s relative rank and prestige, rather than reflecting exclusively its considered financial needs.

An important tool in planning and managing a campaign is the gift chart (gift standards chart), although the format might more accurately be called a table and some authors use that term. An example, based on a campaign goal of $250 million, is provided in Table 13.2. The chart reflects the proportionate giving necessary to achieve the campaign’s overall goal, starting with a lead gift that is at least 10 percent of the goal, and then doubling the number of gifts needed at each successively lower dollar level. The ratios used to construct the table have been developed through experience in many campaigns over the past century and often reflect the pattern of giving to a campaign when studied retrospectively. In recent years, however, many campaigns have diverged from these historic patterns, with an increasingly large percentage of the total coming from a decreasing number of very large gifts at the top of the chart—in other words, from fewer major donors but larger gifts. That change reflects the increasing concentration of wealth in the United States and other economic and demographic changes. Table 13.2 depicts traditional ratios and would need to be adapted to the specific circumstances of a planned campaign.

The gift-range chart is useful in projecting how many gifts will be needed to obtain a specified goal. Using the industry standard, that about 3 to 5 prospects are required to produce every closed gift, it also provides a way to assess if the organization has developed a donor constituency sufficient to support a proposed campaign goal. It may also be useful in demonstrating to the early donors, often including board members, why their gifts need to be exceptional, in order to meet the requirements at the upper ranges of the chart and set the standard for others who ultimately will be asked to support the campaign.

<table>
<thead>
<tr>
<th>Gift Range (in $)</th>
<th>Number of Gifts Required</th>
<th>Number of Prospects Required</th>
<th>Total of Gifts in This Range (in $)</th>
<th>Cumulative Total (in $)</th>
<th>Cumulative Percentage of Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,000,000</td>
<td>1</td>
<td>4</td>
<td>25,000,000</td>
<td>25,000,000</td>
<td>10</td>
</tr>
<tr>
<td>10,000,000</td>
<td>3</td>
<td>12</td>
<td>30,000,000</td>
<td>55,000,000</td>
<td>22</td>
</tr>
<tr>
<td>5,000,000</td>
<td>6</td>
<td>24</td>
<td>30,000,000</td>
<td>85,000,000</td>
<td>34</td>
</tr>
<tr>
<td>2,500,000</td>
<td>12</td>
<td>48</td>
<td>30,000,000</td>
<td>115,000,000</td>
<td>46</td>
</tr>
<tr>
<td>1,000,000</td>
<td>27</td>
<td>108</td>
<td>27,000,000</td>
<td>142,000,000</td>
<td>57</td>
</tr>
<tr>
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<td>400</td>
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<td>193,000,000</td>
<td>77</td>
</tr>
<tr>
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<td>720</td>
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<td>211,000,000</td>
<td>84</td>
</tr>
<tr>
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<td>1,200</td>
<td>15,000,000</td>
<td>226,000,000</td>
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</tr>
<tr>
<td>25,000</td>
<td>560</td>
<td>2,240</td>
<td>14,000,000</td>
<td>240,000,000</td>
<td>96</td>
</tr>
<tr>
<td>Less than 25,000</td>
<td>Many</td>
<td>Many</td>
<td>10,000,000</td>
<td>250,000,000</td>
<td>100</td>
</tr>
<tr>
<td>Totals</td>
<td>1,241+</td>
<td>4,964+</td>
<td>250,000,000</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
Managing Fundraising Programs

Fundraising programs today are sophisticated undertakings, even at modestly sized nonprofit organizations. In larger institutions, the staff of a development office may include dozens or even hundreds of professionals in various specialties, including annual giving, corporate and foundation relations, major gifts, and **advancement services**.

Advancement Services

Advancement services (or development services) has emerged as an important subspecialty in the field, encompassing all the back-office operations such as gift recording and acknowledgment, prospect research, and information systems management. Most nonprofit organizations use one of the commercially available software packages that are comprehensive in their capabilities to maintain donor information and gift records as well as track cultivation and solicitation activity and evaluate the productivity and effectiveness of specific initiatives of fundraising staff.

As mentioned earlier, the growing availability of information on the Web has revolutionized the field of prospect research. Databases of corporate and foundation giving programs enable researchers to identify promising prospects quickly. The giving capacity of individual prospects can be evaluated using a number of sophisticated electronic screening tools that will also identify known relationships of prospects, for example, to members of the organization’s board. However, the costs of such screening can be high for many small nonprofits, and there is still much insight and information to be obtained through the more traditional method of having prospects screened by peers. Individuals in the same business community, the same church, or in the same graduating class may have a good sense of the financial capability and interests of their peers and are often willing to rate their capacity in a setting that provides confidentiality.

Prospect Management

In sophisticated fundraising programs, relationships with donors and prospects are not developed casually or randomly. Contacts are planned, scheduled, and tracked, a process known as **prospect management**. The member of the development office staff responsible for moving a relationship forward is known as the prospect manager. A strategy is developed for each major prospect, and **contact reports** entered into the fundraising information system document every interaction and make it possible for a fundraising manager to monitor the movement of prospects through the fundraising cycle.

In large organizations, especially those with multiple units and decentralized fundraising, policies requiring prior clearance of contacts with donors are essential. For example, this situation is common in universities, where alumni may hold degrees from more than one school and be viewed as prospects for giving to all of them. It is also common in some national nonprofits that have local chapters engaged in fundraising from donors in their local areas. Multiple contacts by different units of the organization may be irritating to donors and create the impression that the organization is poorly managed or inept. In addition, there is always the risk of a preemptive smaller gift that disrupts a careful plan that might have led to a more significant commitment.

Fundraising Efficiency and Effectiveness

The costs of fundraising are a topic that receives considerable discussion and that has been the focus of various studies. As discussed in Chapter 6, some charity watchdog organizations have established guidelines suggesting that fundraising costs should not exceed about one
third of the total funds contributed. The Supreme Court has held that government may not set a maximum level of fundraising expenditure because doing so would be an abridgement of free speech rights under the U.S. Constitution, but the public availability of Form 990 and other financial information has made organizations sensitive to the appearance of high costs in the eyes of their donors as well as the watchdog raters.

Some people say that setting limits on fundraising costs is unfair to organizations that are new or controversial and, therefore, must expend more effort and more money in order to meet their needs for gift support. In addition, it can sometimes be difficult to determine the true total costs of fundraising by an organization. As explained in Chapter 12, some portion of the time and effort of a CEO may be devoted to cultivating and soliciting gifts, but it is not always easy to identify that portion exactly, since some activities may involve donors but may also have other purposes. Accounting rules describe how the cost of activities such as mailings and materials are to be allocated between fundraising and mission-related purposes, but some nonprofits may not be clear about exactly how such costs should be apportioned.

Historically, the ratio most commonly used to evaluate the efficiency of fundraising was cost-per-dollar-raised (cost to raise a dollar). The ratio is produced by dividing the amount of expenditure on fundraising by the total gifts received—it is a cost–benefit ratio stated in dollar terms. For example, if an organization spends $50,000 on fundraising and receives $500,000 in gifts as a result, its cost would be 10-cents-per-dollar-raised. If the same expenditure brought in $1,000,000, its relative cost would be half as much, just five-cents-per-dollar-raised. However, many now argue, this ratio is an inappropriate measure for at least two reasons. First, it is a negative way of looking at fundraising—as an expense rather than as an investment. For example, if an organization spends as much as 50 cents to raise a dollar, which would be considered a relatively high cost, that would still represent a 100 percent return on its original investment. There are few investments in which it is possible to double one's money, and a 100 percent return would be considered very good performance by a manager of an investment portfolio.

The second related objection is that cost-per-dollar-raised measures fundraising efficiency, but it says nothing about fundraising effectiveness. For example, if one organization spends $50,000 to raise $500,000, its cost is just 10-cents-per-dollar and its net revenue is $450,000. Suppose another organization spends twice as much, $100,000, and its efforts result in gifts totaling $600,000. Its relative cost is much higher than the first organization—almost 17-cents-per-dollar. Its fundraising is less efficient, but its net revenue of $500,000 is higher than that of the first organization and its fundraising is thus more effective. For these reasons, many organizations today consider the return on investment (ROI) in fundraising and look at what is spent in relation to what is raised over a time frame of years.

Attention to the costs—and results—of fundraising is commanding more attention by nonprofit managers as well as charity watchdogs and donors. Despite the argument that fundraising costs and returns should be viewed on a long-term basis, it is also the reality that organizations spending a high percentage of gift revenue on fundraising activities may be subject to criticism. The negative impact of controversy may more than offset whatever financial gains their fundraising plan anticipates.

**Staff Performance and Accountability**

An important question, especially in larger development offices with staff members who are specialized in the area of major gift fundraising, is how to evaluate the performance of individual fundraising professionals.

Perhaps the simplest measure would be the amount of money each staff member raises, but that approach creates a number of issues. First, most major gifts do not result from the efforts of a single individual. As we have discussed, a donor's relationship with an organization may develop over a long period of time, perhaps exceeding the tenure of any single member
of the staff. There are many key players in building such relationships, including perhaps the CEO and volunteers, as well as members of the board. It is often not easy to identify exactly who is responsible for the receipt of a major gift; indeed, the individual who solicits the gift may have played a relatively minor role.

A second problem with using dollars raised to evaluate the performance of a development staff member is that it might create incentives that would lead to inappropriate behavior. That is not to suggest that the fundraiser would necessarily engage in unethical or immoral behavior with regard to a donor, but it is possible that a development staff member who knows he or she will be evaluated on the basis of gifts secured will, even if unconsciously, short-circuit the process in a way that is disadvantageous to the organization. For example, a fundraiser with such an incentive might direct his or her efforts toward soliciting gifts from prospects who are known to be ready to give, rather than cultivation of prospects who may not be ready yet but whose long-term capacity to give is much higher. The staff person might neglect stewardship of past donors who are still making payments on long-term pledges and who have a high likelihood of giving again, while pursuing new donors to hit some dollar target on which his or her own performance will be evaluated. Of course, there could be instances in which a development staff member under pressure to maximize gift revenue misleads a donor or exaggerates the benefits of a gift under a reward system that values only gifts completed. For these reasons, some organizations evaluate the performance of fundraising staff primarily on the activity they undertake, for example, the number of visits made and the number of proposals submitted. Others use formulas that combine credit for such activity with the value of gifts closed.

Again, while it is an issue mostly in larger fundraising operations, the best method for evaluating and rewarding professional staff is a topic of perennial discussion and debate. Some development staff are paid incentive-based compensation, including bonuses, which may reward activity (e.g., the number of donor visits completed) exceeding some predefined objectives. Such programs need to be carefully designed to ensure that the fundraising staff is not being paid a commission—that is, a percentage of the gifts they raise. Basing staff compensation on a percentage of gifts raised is unethical behavior, explicitly prohibited by the ethical codes of the Association of Fundraising Professionals and other professional organizations in the field. The practice would not only raise concerns about the possibility of incentivizing inappropriate or unproductive behavior by fundraisers; it also goes to the heart of the philanthropic relationship and the assumption of trust and mutual commitment to a cause that donors assume to be present when they discuss a gift with the organization's representative.

Ethics and Professional Standards

The question of compensation for fundraising staff is just one area of potential ethical challenge always present in the complex relationships among organizations, their donors, and the individuals who solicit funds on the organization's behalf. Most ethical questions that arise in fundraising can be placed into one of five principal categories (Worth, 2016, p. 397).

First, some issues involve the behavior of the staff person who is interacting with the donor. They would include making misleading or dishonest representations, for example, exaggerating the organization's effectiveness, lying about how the gift will be used, or making unreasonable or unrealistic promises to the donor about recognition or the financial benefits of giving. It is also unethical for a nonprofit staff member who is managing a relationship with a donor to attempt to use that relationship for his or her personal benefit or gain or to engage in behavior toward the donor that would be morally repugnant, for example, sexual harassment.

A second category of ethical issues that may confront nonprofit organizations relates to the donor rather than the staff member. For example, what if the organization has reason to believe that the donated funds were illegally obtained? Should a nonprofit accept gifts from a
company that makes products it knows to be harmful? What about the question of accepting a gift from a donor who has been convicted of a white-collar crime or who simply has an unsavory reputation that might reflect badly on the organization, were the gift to receive publicity? There have been a number of examples of such dilemmas posed by gifts from businesspeople who were later involved in corporate corruption scandals, after a building or program had been named to recognize a past gift. Should the organization remove the name? By whose judgment should such decisions be made and what are the limits of the organization’s responsibility—and right—to investigate and judge the character of donors who may offer them support?

A third, and sometimes less obvious, ethical question is presented by restricted gifts: Under what circumstances should an organization refuse to accept a gift that may require it to undertake new programs and perhaps incur additional expenses that it had not anticipated? What if the new program is not entirely consistent with the organization’s mission or would require a redefinition of its mission? For example, if an organization concerned with young children were offered a gift to begin a new program to help prevent high school students from dropping out, it would need to consider whether expanding its mission in that way would jeopardize its focus on its primary mission. It also would need to consider what additional costs the new efforts might create in the future and whether such expansion might endanger the organization’s overall health and other sources of support. It might not be an easy decision to make if the offered gift were very substantial and, especially, if the donor were an important local businessperson or even a member of the organization’s board. The risk to the relationship in turning down the gift would need to be weighed against the potential risk to the organization if it were accepted with the conditions that accompany it.

Another subcategory of questions arises with gifts that come with conditions that might give the donor inappropriate control. For example, most colleges will accept scholarship gifts that require recipients to be enrolled in certain academic programs; that raises few problems unless, for example, the college thinks it unlikely it will be able to recruit many students meeting the conditions. But there are limits to how much influence a donor can be allowed to have in the process of selecting specific scholarship recipients. Allowing a donor to select the recipient of scholarships would not only present an ethical concern; it also would invalidate the tax deductibility of the donor’s gift, making it legally a gift to the scholarship recipient individually rather than to the college, university, or school.

A fourth category of ethical concern that has increased with the growing sophistication of prospect research involves maintaining appropriate safeguards to protect the privacy of donors and prospects. The development offices of many organizations may possess information obtained from public sources about individuals’ financial wealth and income, real estate holdings, and even family situations. It is legal to obtain such data. However, some would argue that when it is assembled to create a donor profile, its wide distribution might be an inappropriate invasion of privacy. In addition, development office files may include information gained from reports written by staff members who have visited the donor over the years or heard secondhand from others who know the donor. Maintaining such information in the files of the fundraising office runs the risk that the donor, and the organization, could be embarrassed if it were inappropriately or inadvertently disclosed to another person.

Fifth, an organization that accepts a gift designated by the donor for a specific purpose undertakes a responsibility to honor that restriction. If the gift is not used as directed, that is an ethical violation and may even give the donor the right to undertake legal action.

The Association of Fundraising Professionals “Code of Ethical Principles” and “Principles of Professional Practice” cover many of the major issues that nonprofits and members of their staff may encounter in raising philanthropic funds. But possible situations are so varied that no code can substitute for continuing ethical awareness and the application of good judgment by nonprofit managers who value the interests of their organizations and their missions above all else (see Box 13.4).
The Association of Fundraising Professionals believes that ethical behavior fosters the development and growth of fundraising professionals and the fundraising profession and enhances philanthropy and volunteerism. AFP members recognize their responsibility to ethically generate or support ethical generation of philanthropic support. Violation of the standards may subject the member to disciplinary sanctions as provided in the AFP Ethics Enforcement Procedures. AFP members, both individual and business, agree to abide (and ensure, to the best of their ability, that all members of their staff abide) by the AFP standards.

PUBLIC TRUST, TRANSPARENCY & CONFLICTS OF INTEREST

Members shall:

1. not engage in activities that harm the members’ organizations, clients or profession or knowingly bring the profession into disrepute.
2. not engage in activities that conflict with their fiduciary, ethical and legal obligations to their organizations, clients or profession.
3. effectively disclose all potential and actual conflicts of interest; such disclosure does not preclude or imply ethical impropriety.
4. not exploit any relationship with a donor, prospect, volunteer, client or employee for the benefit of the members or the members’ organizations.
5. comply with all applicable local, state, provincial and federal civil and criminal laws.
6. recognize their individual boundaries of professional competence.
7. present and supply products and/or services honestly and without misrepresentation.
8. establish the nature and purpose of any contractual relationship at the outset and be responsive and available to parties before, during and after any sale of materials and/or services.
9. never knowingly infringe the intellectual property rights of other parties.
10. protect the confidentiality of all privileged information relating to the provider/client relationships.
11. never disparage competitors untruthfully.

SOLICITATION & STEWARDSHIP OF PHILANTHROPIC FUNDS

Members shall:

12. ensure that all solicitation and communication materials are accurate and correctly reflect their organization’s mission and use of solicited funds.
13. ensure that donors receive informed, accurate and ethical advice about the value and tax implications of contributions.
14. ensure that contributions are used in accordance with donors’ intentions.
15. ensure proper stewardship of all revenue sources, including timely reports on the use and management of such funds.
16. obtain explicit consent by donors before altering the conditions of financial transactions.
TREATMENT OF CONFIDENTIAL & PROPRIETARY INFORMATION

Members shall:

17. not disclose privileged or confidential information to unauthorized parties.

18. adhere to the principle that all donor and prospect information created by, or on behalf of, an organization or a client is the property of that organization or client.

19. give donors and clients the opportunity to have their names removed from lists that are sold to, rented to or exchanged with other organizations.

20. when stating fundraising results, use accurate and consistent accounting methods that conform to the relevant guidelines adopted by the appropriate authority.

COMPENSATION, BONUSES & FINDER’S FEES

Members shall:

21. not accept compensation or enter into a contract that is based on a percentage of contributions; nor shall members accept finder's fees or contingent fees.

22. be permitted to accept performance-based compensation, such as bonuses, only if such bonuses are in accord with prevailing practices within the members’ own organizations and are not based on a percentage of contributions.

23. neither offer nor accept payments or special considerations for the purpose of influencing the selection of products or services.

24. not pay finder’s fees, commissions or percentage compensation based on contributions.

25. meet the legal requirements for the disbursement of funds if they receive funds on behalf of a donor or client.

Source: Used with permission of the Association of Fundraising Professionals (http://www.afpnet.org/Ethics/EnforcementDetail.cfm?ItemNumber=3261).

CHAPTER SUMMARY

Gifts are a significant component of revenue for many nonprofit organizations, although patterns vary widely among subsectors. Gifts comprise a small percentage of revenue for health care institutions, which derive most of their revenue from fees for service. At the other end of the spectrum, gifts are almost the only source of income for religious congregations and some arts and human services nonprofits. Organized fundraising is rapidly becoming more common across the world, but it is still most highly developed in the United States. The term fundraising is often used synonymously with the terms development or advancement, but the latter two terms are properly understood to encompass a more comprehensive approach to institution building that includes other external relations functions.

It is important to distinguish between charity, that is, giving to address current human needs, and philanthropy, which seeks to establish or strengthen institutions that address society’s needs on a long-term basis. Charity is sometimes impulsive and is emotionally driven; philanthropy is often more thoughtful and deliberate.

The motivation to give is quite different among corporations, foundations, and individual donors. Corporate philanthropy generally seeks to advance...
the corporation’s business interests while also accomplishing some social benefit. Corporate support of nonprofits encompasses philanthropy and also various partnerships, which will be discussed in the next chapter. Foundations exist to make gifts and are required by law to do so. There are various types of foundations, some of which may be prospects for support of nonprofit organizations and others that operate their own programs and generally do not provide grants to others.

Most individual donors are likely to be less rational in their giving than are corporations or foundations. A considerable body of research exists on the motivations of individual donors. Findings generally suggest that individuals are motivated by altruism, a desire to pay back for benefits that they have received, desires for social advancement and recognition, as well as other reasons. The influence of tax incentives on giving by individuals is a subject of debate among economists and other experts but most evidence suggests it does affect the amount that some people are able to give.

Fundraising is a process that begins with the organization identifying its own priorities. It then develops a case for support and progresses to identify prospects who have linkage, interest, and the ability to give. The organization then cultivates relationships with those prospects, solicits the gift, and proceeds to acknowledge and recognize the donor. Stewardship is required to maintain and strengthen the relationship and gain continued support from past donors. Development of the case, or the rationale for why the organization deserves support, is a critical step. A strong case is larger than the organization—it starts with the social needs that the organization’s programs address and then becomes more specific in describing how funds will enhance the organization’s ability to address those broader needs.

The solicitation of gifts may use various media, including mail, phone, personal meeting, and—increasingly—electronic communication, such as the Internet, e-mail, texting, and social media. Each of these approaches offers advantages and disadvantages. The fundraising pyramid depicts how many donors evolve in their giving relationship with an organization, beginning as regular annual donors and possibly advancing to become major donors and eventually donors of ultimate gifts. Organizations often build their fundraising programs in accordance with the pyramid, beginning with solicitations for annual gifts and then developing major gift and planned gift programs as their constituency is ready.

Planned giving is a growing area of fundraising and philanthropy. There are three basic types of planned gifts—outright planned gifts, expectancies, and deferred gifts. Each offers various advantages to the donor, and the vehicle selected will reflect the individual’s financial and estate considerations. Campaigns are intensive fundraising efforts that seek to raise a given amount by a specified deadline for specific purposes or campaign objectives. Campaings proceed in phases, and it is important that the model be followed to ensure success in achieving the goal. The gift-range chart depicts the pattern of giving necessary to achieve a dollar goal and is a useful tool in planning and managing a campaign.

Advancement services, encompassing the back-office operations of fundraising, has become an important subspecialty of the field. This area includes prospect research, gift accounting, and the maintenance of fundraising information systems and records.

Questions about the efficiency and effectiveness of fundraising are often discussed and debated. Evaluating the ratio of fundraising cost to dollars raised may be disadvantageous to younger, smaller organizations and does not reveal the effectiveness of a fundraising program in maximizing net revenue. The return on investment in fundraising is a more appropriate measure of effectiveness, but some still emphasize the ratio of costs to revenue and prefer to see fundraising expenditures at a minimum. Fundraising costs that are high may attract the attention of the media, donors, and government officials and result in negative publicity. Discussion also surrounds the compensation of fundraising staff, some of whom receive financial incentives for performance. Compensation based on a percentage of gifts secured is considered unethical in the field.

Fundraising often raises ethical issues, including, among others, those related to the behavior of fundraisers themselves, the reputation of the donor or the source of that individual’s wealth, the impact of restricted gifts on the mission of the organization, concerns about donor privacy and the use of information resulting from prospect research, and the organization’s faithfulness in following donor intent. AFP and other organizations have established ethics codes that are widely followed by practitioners.
NOTE

1. Students may notice that the term that describes the activity seeking gifts is written in various styles, including “fund raising,” “fund-raising,” and “fundraising.” This depends on the particular style the author is following and to some extent on the time period of the writing, since the use of the single word “fundraising” has become more widely adopted in recent years. This text uses “fundraising” except where quoting another work that uses a different style.

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CASE 13.1a–g Fundraising Ethics

Case 13.1a

A generous gift is offered to your organization by a donor whose company was involved in the mortgage crisis of the late 2000s. His gift would be recognized through naming of a major wing on the new building that the gift would help to fund. Although he was not personally accused of legal wrongdoing, members of your governing board express concern that identifying his name with the organization could harm its image and reputation. One board member also raises the possibility that the donor might become involved in questionable business practices in the future and suggests that you negotiate a gift agreement that specifically permits the organization to remove the donor's name from the facility should he ever be criminally indicted or otherwise become an embarrassment to the organization. Do you accept the gift? How do you approach the donor about the proposed terms of the gift agreement?

Case 13.1b

A donor wants to give an art collection to the art gallery at which you are employed. Her requirement is that the gallery be set up just like her home and that she be able to use it for private events on request. She also requires that this arrangement be maintained in future years. Do
you accept? What are the ethical issues and what are some possible legal concerns?

Case 13.1c
You are a gift officer who has a private conversation, with a donor. That donor tells you that another donor, whom you also know, is seriously ill and that the family has financial problems, despite appearances. With whom do you share that information, if at all? Do you record the information in a database or include it in your written report of the visit?

Case 13.1d
A donor is considering a major gift to create a “center on competitiveness” at your institution, a public policy think tank. You know that he is a strong proponent of tariff protection for U.S. companies. A leading proponent of free trade is about to be appointed as a senior fellow in your research center. You know this, but it has not yet been publicly announced. Do you tell the donor about the impending appointment or just stay quiet?

Case 13.1e
A donor you had cultivated on behalf of your nonprofit employer dies. In her will, she leaves you a watch you had once admired as a personal gift. (Assume that your employer does not have a formal policy prohibiting this.) Do you accept it? Why or why not? What if she leaves you $5,000? What if it’s $5 million? Does the amount make a difference?

Case 13.1f
A donor pledges $1 million payable over five years to name a room in a new building. Another donor pledges $1 million to name the identical room next door but says he can only pay it over 10 years. Do you accept the second gift and name the room? If so, are you obligated to tell the first donor about the difference in terms? If you think you are not, then how would you handle questions from the first donor were he or she to learn of the arrangements through a conversation with the second donor?

Case 13.1g
An older donor says that she wants to change her will, leaving everything to your organization. This will cut out her daughter from whom she is estranged. The daughter, whom you know personally, is disabled. Do you encourage the donor? Do you tell the daughter what is going on? Do you tell anyone else or just let this woman make her own decision? What if you personally have doubts about the donor’s mental ability to make financial decisions?

Questions Related to Cases 13.1a–g
1. In the cases above, do the ethical issues involve the behavior or ethics of the fundraiser; conditions placed on the gift or the impact of the gift on the organization’s mission and resources, characteristics or personal reputation of the donor; concerns about privacy; issues of the donor’s intent; or something else?
2. How would you handle the issues raised by each case?
QUESTIONS FOR DISCUSSION

1. Do you think that people give primarily for altruistic reasons or in order to receive benefits for themselves, including warm feelings, recognition, and social approval? Might the motivations differ among various types of gifts and various organizations? Explain your answer and provide examples.

2. Some people argue that donors should receive a more generous tax deduction for gifts to organizations that serve the poor, such as homeless shelters, than they receive for gifts to institutions that primarily serve the affluent, such as symphony orchestras. Do you agree or disagree? Why?

3. If a friend asks you to sponsor his or her participation in a charity event, such as a run or walk, do you usually give a positive response or not? Why? Would your response be different if that friend asked you to do something similar again the next month? Why?

APPENDIX CASES

The following cases in the Appendix of this text include points related to the content of this chapter: Case 1 (New York City Opera); Case 2 (Share Our Strength/No Kid Hungry); Case 3 (The Y); Case 4 (The Girls Scouts of the United States of America).

SUGGESTIONS FOR FURTHER READING

Books

Articles

Websites
Association for Healthcare Philanthropy: http://www.ahp.org/
Association of Fundraising Professionals: http://www.afpnet.org/
Council for Advancement and Support of Education: http://www.case.org/
Foundation Center: http://foundationcenter.org/
Lilly Family School of Philanthropy at Indiana University: http://www.philanthropy.iupui.edu
National Association of Charitable Gift Planners: https://charitablegiftplanners.org/
Network for Good: http://www.networkforgood.org/
Planned Giving Design Center: http://www.pgdc.com
Many nonprofits have found that starting a business has forced the entire organization to become more focused and to sharpen its goals and management skills in all aspects of its work, thereby improving their balance sheets as well as their effectiveness in achieving their charitable missions.

Chapter Outline

Defining Social Enterprise and Earned Income
Why Earned Income?
Partnerships With Business
  Licensing
  Sponsorships
  Cause Marketing
  Other Variations
  Integrated Relationships
  Operational Relationships

Putting Partnerships Together
Nonprofit Business Ventures
  Identifying Business Opportunities
  Feasibility Analysis and Business Planning
Earned-Income Strategies: Issues and Decisions
  Sorting Out the Issues
  Evaluating Opportunities Against Mission
A Continuing Debate
Chapter Summary