Growing Philanthropy in the United States

A Report on the June 2011 Washington, D.C. Growing Philanthropy Summit

EXECUTIVE SUMMARY

Adrian Sargeant, Hartsook Professor of Fundraising, Indiana University
Jen Shang, Professor of Philanthropic Psychology, Indiana University

Introduction

In the United States, charitable giving is estimated to be around two percent of average household disposable (after tax) income (Giving USA Foundation 2011). Regrettably, this is also the 40-year average for this figure, indicating that, despite an increasing effort on the part of nonprofits (Sargeant and Jay 2010), individuals today are no more generous than their predecessors were over four decades ago.

While giving has remained static, demands on the sector have not. The number of natural disasters has tripled since the 1960s and the number of armed conflicts has almost doubled (Forman and Stoddard 2002). The level of human need met by the sector continues to grow (CRED 2010) and in the United States the sector has also found itself with increasing responsibility for social welfare provision as governments have sought to withdraw from this domain. One in six Americans is said to be fighting hunger (Feeding America 2011) and one percent of Americans are homeless (National Coalition for the Homeless 2009). Encouraging voluntary contributions to fund the work of nonprofits must therefore be a priority.

However, the question remains how to best achieve this goal in the face of the stubbornly static pattern of giving we allude to above. Forty years of increasingly sophisticated fundraising practice, the development of planned giving vehicles, the appearance of the Internet, and the rise of new digital channels have done nothing to move the needle on giving. The intention of this paper is to address this issue, drawing on the available research and discussions that took place at the nation's first Growing Philanthropy Summit, held in Washington, D.C., on June 9, 2011. Thirty influential leaders from across the nonprofit industry were assembled to look at how giving might be developed by the nonprofit sector itself. While there are many ways in which governments, businesses, or individual philanthropists may seek to grow philanthropy, the focus of the Summit was squarely on what the sector might do itself to increase its income from individual donors.

Our initial findings were reviewed by participants at the Blackbaud 2011 Nonprofit Executive Summit, held in Washington, D.C., in August, 2011. In the report that follows, we structure our discussion of the conclusions of both events into the four broad categories that emerged:

1. Enhancing the quality of donor relationships
2. Developing public trust and confidence in the sector
3. Identifying audiences, channels, and forms of giving, with a strong potential for growth
4. Enhancing the quality of fundraising training and development

The views expressed below are those of the authors and do not necessarily reflect the views of all summit participants.

Theme 1: Enhancing the Quality of Donor Relationships

Redefine relationships from donor relationships to individual relationships.

Rather than seeing supporters as donors (or as one participant put it ‘piggy banks’) we should regard them as individuals with their own philanthropic aspirations and goals. In seeking to grow giving we should be striving to find new and creative ways through which individuals can discover and express their own philanthropic identity and thus experience the joy of giving. Rather than seeking to maximize the gift to a particular organization, the goal of the fundraiser should be to develop the philanthropy of their supporters including where necessary recognizing that the donor may find the support of other organizations more personally fulfilling. Nonprofits need to accept the value of philanthropy for philanthropy’s sake, as an end itself, not just a means to achieve their own specific mission.

Re-orient toward longer term measures of fundraising performance.

The continued use of performance measures such as response rates, immediate ROI, and total amounts raised by a given campaign is crippling the long-term performance of the sector’s fundraising programs. These simplistic metrics need to be replaced by measures indicative of longer term value. This might be captured directly by ‘lifetime ROI’ or ‘supporter lifetime value’, or indirectly by measuring those aspects of donor behavior that drive these figures, such as supporter satisfaction, commitment, and trust. Fundraisers should be focused on building longer term value and must be motivated and remunerated accordingly.

Enhance focus on retention and building supporter loyalty.

The sector continues to lose donors at an astonishing rate. In annual fund giving, we lose well over half of our supporters between their first and second donation, then 30 percent year-on-year thereafter. In our view the sector remains too focused on donor acquisition, content simply to refill an increasingly leaky bucket and ignoring opportunities to build meaningful relationships with supporters over time. A 10 percent improvement in loyalty can yield as much as a 200 percent improvement in the lifetime value of a fundraising database, so the opportunity to grow giving is substantive. Retention, not acquisition, must be the focus going forward and this requires a concentrated effort to enhance the value we create for our supporters. It also requires a commitment on the part of Board members and CEOs to make identifying and delivering that value a priority.

Develop a more integrated approach to fundraising.

The sector is too fixated on the categories of campaign it runs, be it annual fund, capital campaign, planned giving, or endowment. Yet no one supports a single nonprofit because they happen to have an annual fund or an endowment. It isn’t the vehicle that matters to donors; its the impact they can have on society. While supporters are presently solicited by campaigns, we believe that an organization’s fundraising needs should be integrated and supporters approached with the issues they are likely to find most personally relevant and fulfilling.

Break down organizational silos and encourage greater collaboration between teams.

It isn't just the category of campaigns that can lead to unnecessary silos. In most medium- and larger-sized nonprofits, separate teams are employed to manage fundraising, campaigning, volunteering, lobbying, and service provision activities. While at an organizational level it can make good sense for this to be the case, such silos make no sense from the supporter's perspective. While an individual may be a donor, they may also have the potential to volunteer, campaign, or even use some aspect of the nonprofit's service provision. Breaking down these traditional silos and encouraging teams to collaborate could therefore add substantive value, building giving as a reward.

Give supporters greater control over the relationship.

Our recommendation is that nonprofits should offer supporters choices in communication and in their wider pattern of engagement with the organization. Supporters should be encouraged to take greater control over the relationship they have with the nonprofit. This respects the primacy of the individual but it would also allow them to explore for themselves the nature of the relationship that would add most value.

Promote the development of shared back office facilities.

It was recognized that many nonprofit organizations are small in scale and that most of them do not have – nor plan to have – a dedicated fundraising function. It was recommended that groups of nonprofits in a given community get together and share fundraising expertise with the creation of one central back office facility.

Tackle high turnover rates in the fundraising profession.

A key barrier to the development of meaningful donor relationships was felt to be the high level of turnover in the fundraising profession. Turnover rates of 30 percent per annum are common, and particularly problematic in arts and human service organizations. Critically, it's usually not the remuneration package that's at issue, but rather a lack of respect from CEOs and Board members who value their limited personal experience or 'gut feel' more than they do the accumulated fundraising body of knowledge. The education of key stakeholder groups and the development of a stronger occupational identity for fundraisers are essential if turnover is to be reduced.

Educate all stakeholders about the necessity of a longer term and integrated approach.

Boards also need to understand the economics of successful fundraising management and the long-term financial implications of the changes we recommend. Holding the CEO and their fundraising team to account on a range of short-term and 'siloed' metrics will only be counter-productive, damaging philanthropy and undermining the cultural shift that we aim to achieve. Boards need to understand the fundraising approaches in their own longer term self-interest, but they also need to understand their wider role, namely the stewardship of philanthropy.

Theme 2: Developing Public Trust and Confidence

Empower the regulators to enforce 100 percent filing of Forms 990 and increase their utility.

Despite their weaknesses, in the U.S. the new forms 990 do offer a window onto the performance of nonprofit organizations and we recommend that all nonprofits be compelled to file, with action taken to 'call-out' the organizations who fail to do so. We would also like to see the development of a greater narrative requirement to the 990 that would focus on the outcomes achieved by the focal nonprofit and thus shift the emphasis from efficiency to effectiveness. In our view this would greatly enhance the public utility of the 990 documentation.

Blow the whistle on organizations claiming to have zero costs of fundraising.

The Summit was clear that no nonprofit reporting public donations should claim to have zero costs of fundraising. Such claims damage the public trust by creating the illusion that fundraising can be conducted for free and reinforce the ongoing public misunderstanding that plagues our sector. Fundraising should be regarded as an investment and that this investment must be properly reported.

We also need to challenge those leaders inside and outside of the NGO sector that promote inappropriately low ratios and pretend that this is somehow good business. At least one 'watchdog' body continues to award top ratings to those organizations who claim to have zero costs of fundraising and this practice must be terminated.

Fund the development of a website in the United States to educate the public, boards, and other stakeholders.

We recommend the creation of a U.S. website to educate our stakeholders about the realities of charity costs. Such a site would dispel myths about the sector, provide detail in respect of fundraising costs, presents case studies of successful campaigns, and a 'who can speak on what' list of speakers for journalists wanting to explore any of the issues raised by the site. It would also prompt supporters to ask the right questions when selecting nonprofits for support. Once created all U.S. nonprofits could be encouraged to link to and promote the website as an independent source of information about the realities of modern organizations and their fundraising/administration.

Encourage nonprofits to develop complaints schemes.

Mistakes are inevitable in the domain of fundraising and while they should obviously seek to minimize them, nonprofits must also give supporters the opportunity to have any issues resolved. Supporter complaints and criticism must be actively encouraged. Complaint schemes give supporters a voice, increase trust, can lead to service innovation, and dramatically increase supporter loyalty.

Fund the development of a "Philanthropedia" to facilitate peer-to-peer evaluations of nonprofits.

Many categories of household purchase may now be researched online. One might look at the evaluations of experts in that particular domain, or the evaluations of other consumers who have recently purchased the product. We believe that the development of a similar online system for philanthropy would add genuine value for donors.

Develop new and more appropriate measures of performance.

Categories and sub-categories of nonprofit must create their own range of performance metrics. Rather than continuing to bemoan an inevitable focus on efficiency measures the sector must take ownership of the issue and develop its own response. However, better measures will not in themselves build the public's trust. Equal attention must be paid to the specification of what might constitute appropriate standards of performance and educating the public accordingly.

Develop the self-regulation of fundraising.

In our view there should be a greater focus on the development and promotion of professional standards. Trade bodies such as the Association of Fundraising Professionals must map out best practices for each form of fundraising, specifying the legal requirements that should be met, together with best practice in each case. These "Codes of Fundraising Practice" would be owned by the profession and periodically reviewed to ensure that an appropriate standard is maintained. While these codes may initially offer 'guidance' to fundraisers in respect of appropriate behavior we believe that, in time, these behaviors must be enforced. Those failing to meet those standards would be barred from membership of our trade bodies. In this way greater control can be exerted by the profession over the issues that matter to donors and the wider public.

Theme 3: Identifying New Audiences, Channels, and Forms of Giving with Strong Potential for Growth

Encourage the adoption of monthly giving.

The wider adoption of monthly giving (also known as regular or sustained giving) in the U.S. could itself transform philanthropy. The lifetime value of supporters giving in this way is estimated to be 600-800 percent higher than the cash or annual alternative (McKinnon, 1999). The sector needs to develop case studies of best practice and disseminate these to fundraising professionals to encourage them to develop their own monthly giving schemes.

Improve the sector's engagement with young people.

The Summit recommended that the sector continue its drive to connect with our younger generations. The focus here should be squarely on engagement, not donations, recognizing that while many young people are not in a position to give cash, this is in no way a reflection of their interest in our causes. Nonprofits need to engage through social and other media, raising awareness and building engagement until the time is eventually right to ask for financial support. A range of other practical recommendations were offered including the adoption of a "first gift" scheme.

Encourage and promote best practices in social media.

There remains a significant opportunity to grow giving and develop supporter engagement through social media. We believe that it may be expanded beyond the 11 percent of total online giving it currently represents. Social media is particularly powerful because it adds value to the supporter relationship, stimulating other forms of engagement that move well beyond the cash support of a particular campaign. Social media can build donor commitment, trust, and loyalty to the cause, thereby impacting on the totality of an individual's support. Summit participants felt that social media should be more effectively integrated across our core fundraising processes.

Encourage asset-based giving.

It's estimated that the average American's wealth is comprised of only 7 percent cash. The other 93 percent is made up of stocks and non-cash assets such as real estate, business interests, and various types of valuable per¬sonal property. 93 percent of a person's giving potential is therefore through their assets and largely untapped by fundraisers who continue (in the main) to ask for cash. The Summit called for the fundraising sector (through its educational programs) to develop greater financial literacy to facilitate more meaningful conversations with donors.

Develop expertise in broadening participation in giving.

It would be facile to issue yet another call to broaden participation in giving. The sector has long been aware that it needs to do more. Instead our discussion focused on the tangible steps that might be taken to make a genuine difference in this domain, allowing all in our society to explore and express a personal philanthropic identity. Notable here was strengthening the sector's ability to learn from its own experiences. Many nonprofits can and do fundraise successfully from ethnically diverse audiences, respecting the very different reasons there might be for engagement and also the very different ways in which these individuals might choose to participate. The sector thus has the capacity to teach itself how to do better and this understanding must be leveraged for the benefit of all.

Improve the quality of bequest fundraising practice.

The passing of the baby boom generation will only be marked by a massive drop in annual giving. While over 80 percent of Americans will support the nonprofit sector during their lifetimes, only around 8 percent of them will do so on their death. We call for every category of supporter to be encouraged to consider a "bequest" or "gift in their will." This simple signal of support is one that every American could make, yet few are currently prompted to consider. Responsibility for securing outright "gifts in wills" must be wrested from planned giving departments and promoted as a core form of giving to all categories of supporter.

Challenge the wealthy to plan their own philanthropy.

Rather than focus on a fixed percentage, many Summit participants felt that the most impactful way of increasing giving would be to encourage the wealthy to think through for themselves what might constitute an appropriate portion of their wealth to give away. The scholar Paul Schervish talks of the need for "self-reflective discernment" which doesn't neglect an aspect of "duty," but recognizes that that obligation is at its most powerful when it is self-discovered. The scolding model only takes us so far and how best to trigger that discernment must be our primary concern. Gates and others could multiply their impact by sharing with others what excites them about philanthropy and the rewards they have personally discovered in the domain. A new generation of philanthropy advisors might then guide others on that journey of self-discovery.

Create a nonprofit mutual fund.

We recommend the creation of a mutual fund that would donate the amount typically charged in fees by its managers, to a nonprofit of the investors' choice. The value of the fee waiver might then be matched by a number of finance industry donors that want to stimulate philanthropy and/or gain valuable publicity from their support of the venture.

Leveraging companies to promote philanthropy.

The Summit recommended that the sector think through ways in which it might harness the time spent at work and the social-peer relationships that individuals have at work as the delivery mechanism for much of the public education agenda we outline above. Nonprofits could collaborate to provide an educational roadshow for employers in their area. The goal would not be to solicit gifts per se, but rather to educate participants in the realities of the modern sector and to think through their own philanthropic interests and aspirations.

Theme 4: Improving the Quality of Fundraising Training and Development

Invest in the development of fundraising research.

While a number of large foundations routinely invest in research in the study of related topics such as philanthropy or generosity, no one has as yet invested a substantive sum in fundraising research. We call on foundations to consider investing in research specifically focused on how we might grow giving. Investing in nonprofit programs buys an investment in those programs, but investing in fundraising research would benefit the sector as a whole, multiplying the impact of that support and impacting on a multitude of programs. The time has now come to create the field of donor behavior and grow giving by enhancing the quality of the donor experience.

Create a fundraising research institute.

The ideal vehicle for such an investment in research was felt to be a dedicated research center that would specialize in this field. It might conduct its own research, but it would also commission the work of specialists. Such an institute should also act as a hub or clearing house for all fundraising research, whether it was created by academics, agencies, or by nonprofits themselves. It would provide a focal point where all might go for information and guidance on a given topic. Finally, the new body should become a think-tank for new ideas – an R&D department for the sector.

Redesign the system of professional development and certification for fundraisers.

We recommend significant improvements in the current systems of professional development and certification for fundraisers. We must better integrate the best of current professional practice with the available lessons from published research, both work conducted by academics and that conducted by sector bodies and agencies. In particular, knowledge of donor behavior must be seen as central to a career in fundraising, just as knowledge of consumer behavior is central to a career in marketing. The first step is for the profession to map out both the skills and the knowledge required of fundraisers working in a variety of roles and levels within an organization. Development and certification programs can then be built around these requirements with assessment methods being employed that reflect the skills and/or the knowledge based emphasis in each case.

Encourage the development of academic qualifications in fundraising.

Undergraduate degrees in marketing are plentiful, yet a degree to prepare an individual for a career in fundraising is notable only by its absence. We recommend that the fundraising professional bodies work with employers and universities in those states with large concentrations of nonprofits to foster one such program. Bright young people, passionate about the sector might then be equipped with the skills and knowledge they would need to succeed in our profession, taking with them abilities that would make a tangible difference to any subsequent employer. We also recommend that provision at the masters' level be significantly expanded and that all masters programs in the field of nonprofit management must include a compulsory module on fundraising.

Appoint a "sales force" for the fundraising body of knowledge.

We believe that every fundraiser should have exposure to our profession's body of knowledge, including at least two models of donor behavior, the role of emotion in appeals, the learning from philanthropic psychology, the three key factors that drive donor loyalty, the relationship between branding and fundraising, and so forth. This knowledge should be informing professional practice, yet there is little awareness even among fundraisers of what is currently available to them. As a profession we must ensure that organizations are familiar with the benefits that professional development and certification programs can offer and come to value the body of knowledge that supports professional fundraising practice. Since many CEOs and Directors of Development will have succeeded in their careers without exposure to this knowledge, they will frequently not be aware of it, nor the difference it could be making in their organizations. We therefore recommend the creation of a "knowledge champions" who would act as a sales force, or advocates, for the body of knowledge and encourage nonprofits to take advantage of it.

Call out institutions offering certificates purporting to be qualifications.

A number of organizations, including some colleges across the U.S., currently offer fundraising certificates that have the potential to confuse employers. Dressed-up in the language of education, these certificates are deliberately marketed as qualifications, yet in most cases the individual does not need to complete a formal assessment. Neither the individual, nor the awarding body has any way to assess the learning that may or may not have taken place and employers have difficulty in distinguishing these from rigorous assessment-based programs. We call on such bodies to be open and transparent about their offerings and to label what amounts only to a certificate of attendance as exactly that; a certificate of attendance.

Educate board members about the intricacies of fundraising.

The critical barrier to developing philanthropy in the U.S. is the endemic lack of understanding of how to fundraise on the part of nonprofit boards. Boards lack both an understanding of the process of fundraising and their own role within it. As a consequence poor investment decisions are taken, supporter relationships are neglected, and the high level of turnover within the fundraising profession continues. Tackling this problem requires a concerted effort to push those sector bodies who serve the needs of boards to include a greater focus on fundraising in their activities. Teaching and learning resources must be developed and made available to facilitate both new board member induction and ongoing board development.

Conclusions and Next Steps

In the coming months, it's our intention to prioritize the recommendations we list above and to assemble working parties of individuals to take the lead on developing and implementing the action plans necessary to make each idea a reality. It's our intended to begin work in the fall of 2011.

We would like to thank the following organizations for their participation in these summits.

AARP & AARP Foundation	Drakes Bay Fundraising	NetHope, Inc.
American Diabetes Association	Easter Seals, Inc.	New York University
American Lung Association	GreatNonprofits	Partners HealthCare System, Inc
AmeriCares	GuideStar USA	Planned Parenthood Fed of America
Arthritis Foundation	Hartsook Companies, Inc	Project Hope
Association of Fundraising Professionals	Habitat for Humanity	Robin Hood
Autism Speaks	Humane Society of the United States	Silicon Valley Community Foundation
Avila University	Indiana University	Special Olympics International
Barker and Scott	International Mission Board	The ALS Association
Barker & Scott Consulting	March of Dimes	The Heritage Foundation
Blackbaud, Inc.	Memorial Sloan-Kettering Cancer Center	The Nature Conservancy
Boy Scouts of America	Independent Sector	The Nonprofit Times
Brigham & Women's Hospital	Indiana University - Bloomington	The Salvation Army
CARE	Indiana University Foundation	The Wilderness Society
CASE	Institute for Women and Wealth	U.S. Fund for UNICEF
Catholic Healthcare West	Joyaux Associates	USO, Inc.
CHI Foundation	Lake Family Institute on Faith and Giving	Urban Institute
Common Knowledge	MacKenzie-Romero Consulting	Wealth & Giving Forum
Defenders of Wildlife	National Wildlife Federation	World Wildlife Fund
Donor Trends		

The views expressed in this report are those of the authors and do not necessarily reflect the views of all Summit participants. Please reference the full report for a complete list of references.