Intelligent Giving

Insights and Strategies for Higher Education Donors

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Preface

This book is for those wishing to make a major gift to an institution of higher education and seeking an intellectual framework for deciding how much to give to which school(s), for which purpose(s), over what periods of time, or with which (if any) restrictions. Its overarching purpose is to enable and empower those with philanthropic impulses and, in that small way, to contribute to the grand mission of American higher education.

In some sense, one can view this book as addressing a basic asymmetry of information. The campus development officers and institutional leaders with whom a prospective major donor will interact are professionals. In most cases, they will have conducted similar discussions with dozens if not hundreds of donors. As such, they are an invaluable source of information, insight, and counsel for prospective donors. But at the same time they are a party to a negotiation. In particular, they are the "other" party. This book, sponsored by an individual donor, seeks to provide an objective and complementary perspective for other individual donors.

The insights and strategies offered herein have been culled by a RAND research team mainly from interviews with development officers, institutional leaders, and donors themselves. We also acknowledge and thank our RAND colleagues Roger Benjamin, Alan Charles, Jim Hundley, Jim Osterholt, and Georges Vernez for their many useful comments.

The study was supported by a gift from Scott Limbach and carried out under the auspices of RAND's Council for Aid to Education (CAE), a national, nonprofit organization based in New York City. CAE became a subsidiary of RAND in 1996. In partnership with RAND, CAE provides empirical support to evaluate education grant making and to seek workable solutions to pressing issues in education.

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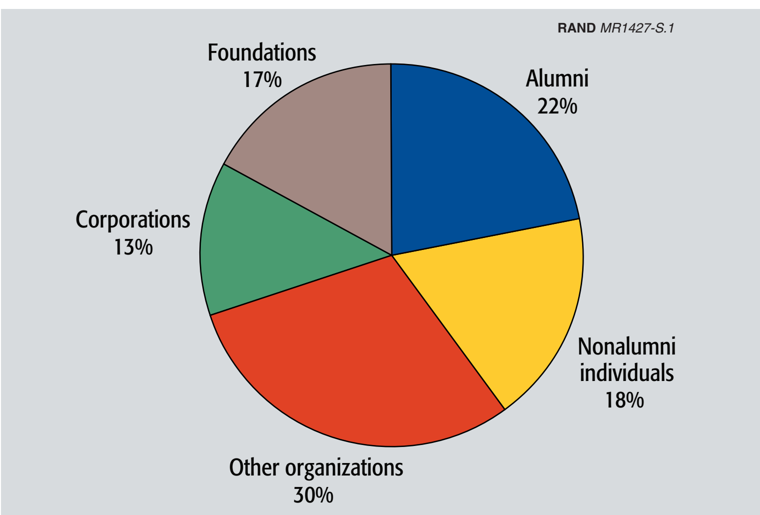
Executive Summary

For well over a century, American higher education has set the world standard for academic excellence and equitable access for all citizens. Over two million degrees are conferred each year across nearly 4,000 public and private institutions, including some two-thirds of the best universities in the world. It is often said that the "margin for excellence" for this vast enterprise comes from voluntary donations, fully 40 percent of which comes from alumni and other individual donors (see Figure S.1).

Major donors to higher education give for many reasons and, through this giving, seek various rewards. Yet all face a common challenge: how to make enough sense of the U.S. higher education system, the higher education fundraising process, and the options for higher education philanthropy to be able to give intelligently and meaningfully.

While higher education fundraising has grown increasingly sophisticated in its approach, higher education philanthropy has remained in large part an "amateur" exercise. Donors follow the casual advice of friends and colleagues and their own hearts in deciding what to give, to whom, how, and when. The purpose of



SOURCE: Council for Aid to Education, 2000a.

Figure S.1 Alumni and other individual support of higher education is significant this book is to augment this approach with insights and strategies for giving based on donor objectives and interests. The collective wisdom presented herein comes from those people who have the most direct and personal experience with giving to higher education: development officers, institutional leaders, and donors themselves.

Understanding the U.S. Higher Education System

Higher education in the United States is enormously complex, both captivating to behold and frustrating to understand. Its tremendous diversity stems from four key historical themes: growth, democratization, the mixture of public and private institutions, and competition. Yet across this vast and changing landscape of institutions, we find a unique set of norms, values, and practices. Prominent among these are "shared governance," an incremental and decentralized approach to resource allocation, tolerance, internally defined standards of quality, and most fundamentally a fervent commitment to academic freedom and all that it stands for. Individually these may appear strange or even dysfunctional to an outsider, but collectively they have served academe well.

MIT, Swarthmore, West Point, the local community college, and the typical state university are very different institutions. Funding opportunities available and donor strategies appropriate at each vary accordingly. The Carnegie Classification System is a useful tool for making sense of this complexity, distinguishing among six categories of institutions (doctoral/research, master's, baccalaureate, associate, specialized, and tribal). Understanding distinctions among these categories can suggest which schools are good candidates for your support and give you some indication of how an institution will respond to gifts of a particular size or type.

Fundraising Inside the Ivory Tower

Fundraising strategies and programs differ greatly across institutions and institutional types, but they all respond to a simple empirical observation. Many people give, but the vast majority of the dollars come from a small number of "major gift" donors. Hence, "development" is fundamentally about relationship building. Institutions will seek to move you from one level to the next in terms of the size of your gifts and the extent of your involvement with the institution.

Your relationship with a school often begins with giving to the annual fund (typically small, unrestricted annual gifts to support annual budgets or general operations). Once the school identifies you as a prospective major donor ("prospect"), it conducts systematic "prospect research." (You'll be amazed how much information about you a school can gather and track electronically.) Based on this information, your giving potential is assessed, and your "cultivation" will be assigned to a development officer. These officers work to understand your interests, increase your interest in what the institution stands for and hopes to achieve, and negotiate an agreement that serves both your and the institution's needs. Although development officers work for donors in the figurative sense, their paycheck comes from the institution. Think of them as more akin to a real estate agent (although they do not work on commission) than a personal attorney who is bound by a legal fiduciary responsibility to you.

Donors may have frequent contact with development officers, even on fairly personal terms, but the "ask" for a major gift is generally made by an institutional leader (e.g., a dean), a trustee, or another major donor, often following a carefully orchestrated plan. The timing of asking may be driven by "campaigns," which seek to raise large amounts of money within a specified time frame and often for specified purposes. Major gift donations are usually followed up by good "stewardship," both out of genuine gratitude and because the best prospect for a future gift is a past donor.

The fact that the development process has become so organized is both good and bad for donors. It increases professionalism and usually ensures outstanding service, but at the same time the process has taken on something of the character of sales. For example, campaign deadlines, which are internally generated, can create pressure for people at the institution and, by extension, the donor.

The What, How, and When of Giving

In general, you can give an institution any amount for any purpose at any time. You can give restricted gifts or unrestricted gifts; you can give cash or property or time; you can fund a program one time or in perpetuity; and you can give now, later, or both now and later. While the great bulk (80 to 90 percent) of gifts are restricted (see Figure S.2), institutions and institutional leaders find unrestricted gifts to be the most valuable. The following are the most common funding opportunities in higher education: buildings or portions of buildings, endowed chairs, and endowed scholarships. But there are many other creative options, including endowing an annual award or funding a special program.

There are some subtleties concerning what gifts are most effective at achieving a donor's intent, or the purpose that you want your gift to serve. For example, donors who want to endow

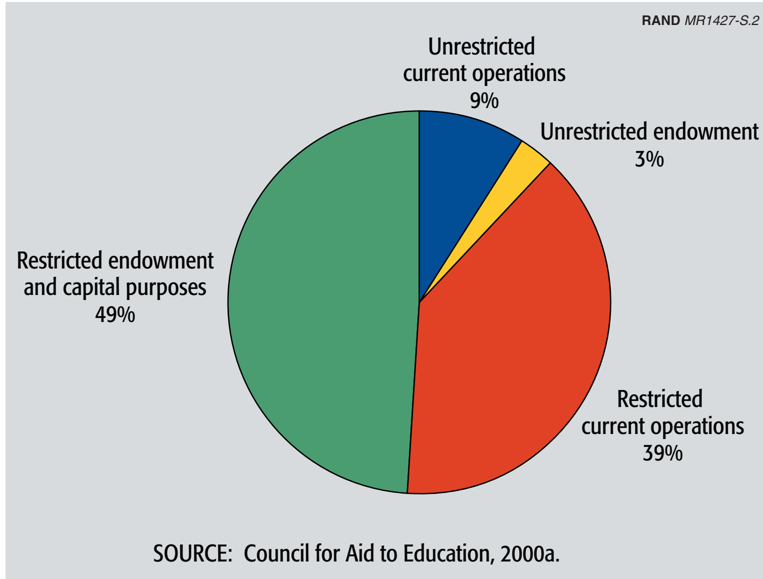


Figure S.2 Giving is roughly evenly divided between current operations and capital purposes; most is restricted

a chair or a scholarship should avoid making the endowment too broad (then the funds become effectively unrestricted) or too narrow (then the purpose of the gift may never be fulfilled or may lose relevance over time). The amount of the gift can also be an important determinant of the use to which it is put. Giving a large number of relatively smaller scholarships, for example, can be equivalent to an unrestricted gift, while giving a smaller number of larger scholarships can increase the total aid package.

There are also some gifts that cannot be accepted. Gifts (endowed chairs, scholarships, etc.) that are not available to underrepresented minorities are an obvious example. More subtle instances include cases in which accepting the gift is prohibitively expensive, e.g., a physical collection that requires substantial care and upkeep.

Many donors also want to know how much recognition a gift will bring, how much access will accompany it, and how much influence it will confer. Generally speaking, large gifts to institutions can purchase much more recognition and access than control or influence. If you are interested in getting your (or someone else's) name on something, you are in a good position: Most schools offer naming rights to almost anything they can put a nameplate on. Likewise, as a major donor, you can expect to spend time with institutional leaders, particularly at smaller schools. Issues regarding intellectual freedom for research and teaching, however, are particularly sensitive. You should not expect to judge or control faculty behavior. Note too that the Internal Revenue Service is very strict about donors receiving personal privileges in exchange for a gift, especially those things that have a face value (e.g., good seats at a football game). Access and attention tend to be more free-flowing, and typically you can get more for less at smaller and less affluent schools.

Selected Giving Strategies

Higher education philanthropy can be viewed as a formal social exchange between an institution and an individual or family donor. As Table S.1 illustrates, one dimension of the exchange relates to how committed you are to a particular institution. Another has to do with how committed you are to funding a particular entity or activity.

The most common situation that donors find themselves in is wanting to help a particular school and trusting the school's leadership to identify the school's needs and priorities. Your role in this situation is basically to move a project from the school's wish list to reality. The relationship between the Loyal Alum and school's representatives can be friendly and direct. The main pitfall for you to avoid is the temptation to micromanage the design or operation of what you fund.

The Philanthropic Angel has neither an agenda nor a predetermined affiliation with a particular school. These donors have many choices. You do not need to enter into intense negotiations with the school's leadership because you are willing to give a flexible gift. And, perhaps most importantly, you will be treated as a godsend. Strategically you should take your time searching out one or more schools and then choose either to develop a personal relationship with them or to stick to some objective criteria for evaluating institutions and making gifts. The Carnegie Classification System can serve as a useful tool in this search.

Table S.1 A typology of giving

		I Focus on a Particular School	
		Committed to Helping One School	Not Concerned About School Per Se
II Focus on a Particular Topic	Flexible About Specific Activity Funded	**The Loyal Alum**	**The Philanthropic Angel**
	Committed to Funding a Specific Activity	**The Alum with an Agenda**	**The Social Entrepreneur**

The last two categories of donors share a common challenge: they want to fund something that may not be a top funding priority for the school. This divergence of objectives sets up a donor-institution interaction that is as much a negotiation as a partnership. A key issue is whether you need to get the school to start the activity you wish to fund or whether you seek to increase the amount of activity already under way. Both are challenging. It is hard to know ahead of time how an activity that is only on the drawing board will perform, but the risk with giving to expand current programs is that your money will displace other funds that would otherwise have gone to the program, muting the effect of your gift. The biggest difference between the Alum with an Agenda and the Social Entrepreneur is the lesser bargaining power of the former. The Social Entrepreneur can walk away from one institution and go to another at any time. The Alum with an Agenda, however, will have to be more flexible (or at least feign flexibility), consider time-varying restrictions on the funding, and perhaps consider giving something other than money to avoid simply displacing other funds from the school.

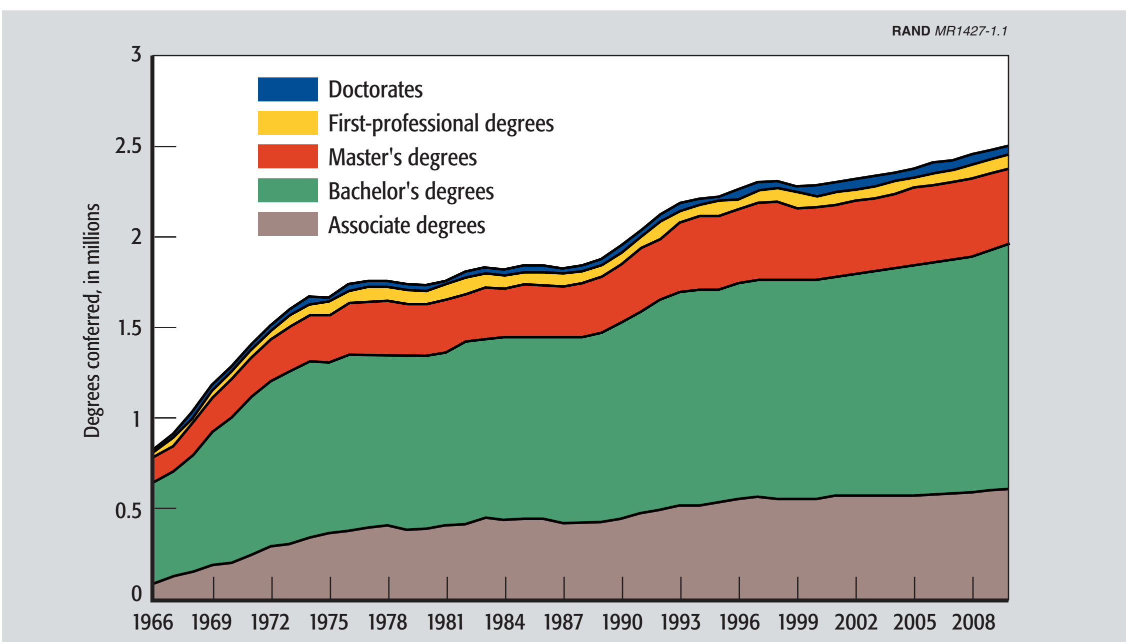
Ultimately the giving process that works best for you will depend on your individual interests and needs. Certainly every donor, every school, and every funding opportunity is different. Our best advice it to be clear on what impact you want your gift to have, to seek as much information on the school/situation as possible (see Appendix A for additional resources), and to consult with your attorney and a good financial advisor at all stages of the giving process.

1 Introduction

The U.S. higher education sector is hands down best in the world. Over 350 years after the great American experiment with higher education began, our country is now home to some 4,000 institutions of higher education, both public and private nonprofit, and at least that many private proprietary institutions of postsecondary education and training. Among these are included between two-thirds and three-fourths of the best universities in the world (Rosovsky, 1990).

American higher education is responsible for hundreds of billions of dollars in economic activity each year, generates thousands of industrial and scientific patents, and publishes entire libraries of scholarly books. The total number of degrees conferred per year is now over 2 million and increasing (see Figure 1.1). Over the past 21 years, just under two-thirds of all Nobel laureates in the sciences had U.S. affiliations, either solely or jointly. All of this is in addition to the medical care that academic health centers and

Figure 1.1 The number of degrees conferred annually is now over 2 million and increasing

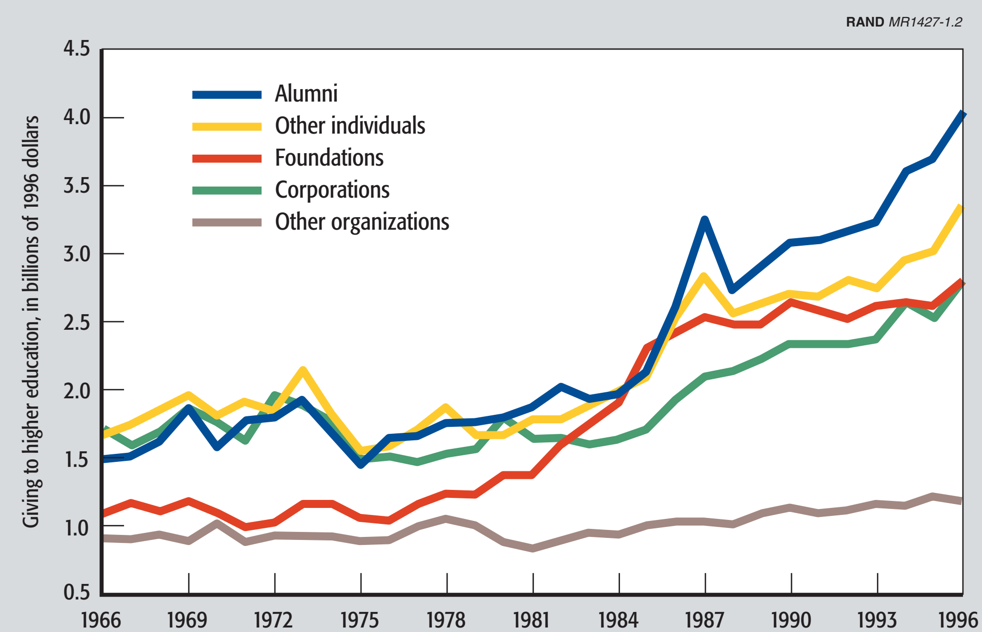


SOURCE: Snyder and Hoffman, 2001.

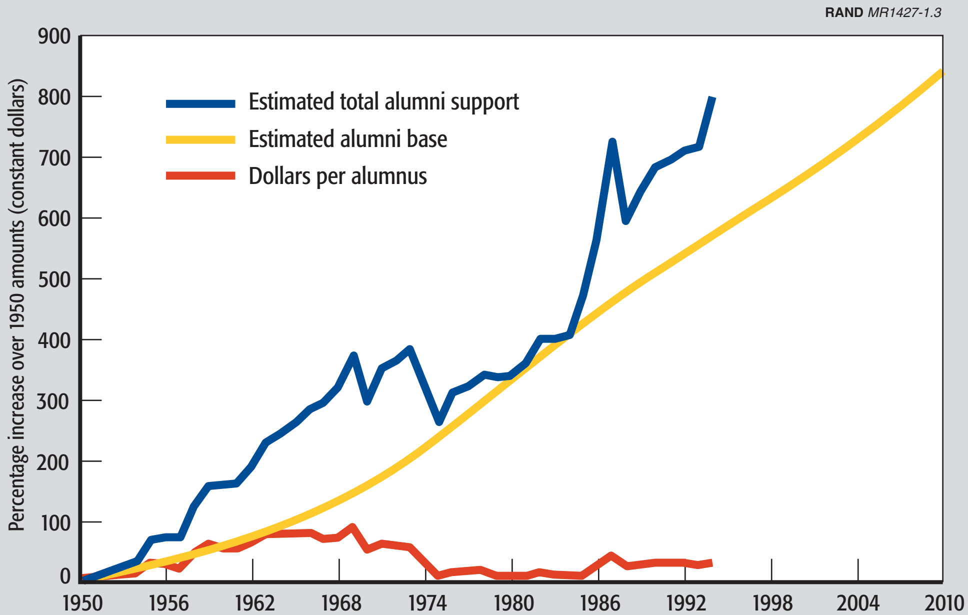
hospitals provide, the incalculable value of public service performed by students and faculty, the great commercial enterprise that big-time intercollegiate athletics has become, and the other ripple effects from the myriad activities in which higher education engages. In no other industry does the United States so utterly dominate the global stage.

From its beginnings, private philanthropy has provided the edge of excellence to higher education (Pocock, 1989). The U.S. Department of Education estimated that private support increased tenfold between 1910 and 1950, outstripping the growth of student enrollment and faculty members during that period. Since then the growth in alumni and other individual giving has continued to be substantial, surpassing other sources of support to higher education in almost every year (see Figure 1.2). By 1998–1999, voluntary support for higher education had reached $20 billion (or roughly $1,400 per student), with much of this total coming directly from individuals or through their personal or family foundations. The growth of alumni support is owed in large part to the expanding alumni donor base; the average gift per alumnus (in constant dollars) has changed little (see Figure 1.3).

Figure 1.2 Growth rate of alumni and other giving continues to be substantial, outstripping other sources of support



SOURCE: *Voluntary Support of Education, 1996*, Copyright © 1997, Council for Aid to Education.



SOURCE: *Voluntary Support of Education, 1995*, Copyright © 1996, Council for Aid to Education.

Figure 1.3 Growth of alumni support is owed in large part to the expanding alumni donor base; average gift per alumnus (in constant dollars) has changed little

Who Are Higher Education's Major Donors and What Motivates Them?

In the past decade the number of American families whose net worth is at least $1 million has soared to 5 million, and demographers predict that over the next ten years the number will quadruple to 20 million (D'Souza, 1999). Estimates of the amount of wealth that older Americans will leave in their estates in the next 50 years vary widely, but they are all large, ranging from $10 trillion to $40 trillion. Indeed, as of 1998, some 1,500 people in this country have given grants of more than $1 million each to individual institutions (Allen, 1999). Some of the largest donors will be familiar to you: Leland Stanford, James Buchanan Duke, John D. Rockefeller, and George Eastman, who were instrumental in developing Stanford, Duke, the University of Chicago, and both the University of Rochester and MIT, respectively.

Much research has been done on the subject of major donor motivation (see, for example, Brakely, 1981, and Marts, 1953), and the results are clear. Most people give to realize personal fulfillment and out of dedication to an institution, not because of material or financial rewards (Dove, 1989). There are many identifiable reasons for donating to higher education: giving back, saying thanks, providing opportunities for others, improving the quality of life, solving problems in society, and preserving and perpetuating our nation's values, to name but a few.

The vast majority of you are alumni, parents, or well-to-do people in the community who want to support local education efforts. Alumni donors tend to be wealthy, middle-aged or older, have strong emotional ties to their alma maters, have earned at least a bachelor's degree, participate in some alumni activities, and have religious or voluntary affiliations. Donors of all types seem to favor institutions of prestige and magnitude. New trends among younger donors include a more "hands-on style," the tendency to direct or restrict gifts more carefully, a stronger focus on issues and problems, and an eagerness to do their giving differently, with special emphasis on investment models and venture philanthropy.

Why Donors Need More Information

People outside academia are generally aware of the "products" of higher education (scientific breakthroughs, diplomas, football games, etc.), but have little reason or incentive to know much about the process behind the products or, indeed, about the institutions themselves. Most major donors to institutions of higher learning (other than trustees) have not spent substantial time on a campus in decades. Even when you did, most of you were students and typically shielded from the business, financial, and operational aspects of higher education. So even bright, successful, well-educated prospective donors in many cases may not have a very complete understanding of the higher education sector.

> To attempt to know everything about the institution will be foolish, but to know too little is to be helpless.
>
> –J. L. Zwingle (1906–1990), formerly president emeritus and chief executive of the Association of Governing Boards of Universities and Colleges (Zwingle, 1975, p. 11)

Compounding this is the vast array of giving options and strategies for those of you who are giving enough that both you and the institution want to move beyond "checkbook philanthropy" (simply writing a check in response to a phonathon or mass mailing). As we will explain below, there are no universal cutoff amounts that define what constitute a "major" gift when giving to higher education. A large and well-endowed institution may view gifts only above $25,000 as major gifts. A smaller school might be pleased to discuss in some detail with those of you giving $5,000 how best that money might be allocated to meet shared goals. Typically, the major gift range starts at $10,000 or more and can go up to as much as hundreds of millions of dollars. When making investments or purchases of this magnitude, it is customary to invest some effort in becoming well informed. It makes sense to invest similar energy in ensuring that your major gift choices are equally well informed.

Institutions of higher education have generally grown more sophisticated in their philanthropic efforts, researching philanthropic trends, collecting detailed information on donors, and establishing large units focused on the development process. In contrast, many donors lack access to comparable information about institutions and the development process. Moreover, what information you do have comes from the school hoping to receive the funds, neither an objective nor impartial source, and friends and their experiences, which are unlikely to reflect in a representative way the full range of institutions and alternatives. This asymmetry of information places you at a distinct disadvantage. What follows is an effort to address this asymmetry.

What This Book Is, and How It Can Help

The goal of this book is to provide insights, not data. While it may be true that the average enrollment at an institution of higher education in the United States is a bit under 4,000, that fact is of little value to you as a prospective donor dealing with a specific institution, particularly since the enormous (and wonderful) heterogeneity in the sector means that few schools look very average.

While this book reports some facts that we hope are relevant to you (such as that in any given year and school, the three largest gifts are likely to constitute on the order of one-quarter of all individual giving), those facts are culled from secondary sources. Our original data collection focused on giving strategies and pitfalls, common misunderstandings concerning higher education institutions, and subtleties about giving to higher education that might elude an intelligent outsider.

Unfortunately but understandably, there is no national survey of prospective donors' misunderstandings. Nor is it easy to contemplate a controlled trial in which a randomly selected set of prospective donors is assigned to pursue one strategy or another. Instead, we adopted the very straightforward approach of interviewing those individuals most directly involved in higher education philanthropy: development officers, institutional leaders, and donors. The interview protocol that we followed is presented in Appendix B. Our interview subjects were not a random sample of any defined population, even though we sought and obtained interviews with individuals from a representative cross-section of institutions. As a result, we cannot and do not draw quantitative conclusions (e.g., that X percent of all development officers cite confusion about tenure as the most troublesome misunderstanding of higher education's mores and operating practices).

In all, we interviewed 32 individuals who have given to or worked for 32 schools ranging from community colleges to the most prestigious research universities, with at least three subjects from each of the major Carnegie Classification System categories of institutions (explained below). Certain themes were covered in every interview (respondent's personal history with development or giving to higher education, description of the giving process as they have witnessed it, common pitfalls, and key recommendations for donors), but questions were open-ended and discussions wide-ranging.

There was by no means consensus on all issues discussed. For example, some respondents thought it was a very good idea for donors not wedded to a single institution to cultivate relationships with multiple institutions in order to keep options open and be in a stronger bargaining position with each. Others thought that was either unwise or simply inappropriate. Outright contradictions were rare, however. Instead, what emerged was more consistent with the cliché of blind people feeling different parts of the elephant. There are meaningful differences between opportunities and practices at public versus private and large versus small schools. Likewise there are meaningful differences in approach between donors who simply want to advance a particular institution (e.g., their alma mater) and those who want to use the gift and its recipient to advance some agenda (e.g., promote the study of a particular culture or find a cure for cancer).

In this book we seek to synthesize and convey this collective wisdom in a series of typologies and guidelines. In Chapter Two, we highlight the most significant features of the American higher education landscape in order to demystify the system and help you make sense of its complexity. Chapter Three offers an insider's look at the higher education fundraising process. Chapter Four lays out the various options for giving to higher education. Our hope is that you will be able to locate yourself, your objectives and interests, as well as the institutions in which you are interested, within these typologies. In Chapter Five, the guidelines then take the form of if-then rules. *If* you are interested in supporting this type of activity, *then* you might consider pursuing the following strategy. Chapter Six presents general conclusions. Appendix A points the reader to additional resources on higher education and philanthropy, and

Appendix B contains the interview protocol that we followed for the development officers, institutional leaders, and donors who we interviewed.

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In no sense are these guidelines hard and fast rules that should be adhered to with the same determination as is appropriate for patients being medicated for a chronic medical condition. If a suggestion does not seem to make sense *to* you, then it probably does not make sense *for* you. There is no substitute for individualized advice, but there is also no sense in seeking such advice without the benefit of a basic framework for understanding the issues. It is in that spirit that we hope this book advances understanding of the very important activity of philanthropy in higher education.

2 Understanding the U.S. Higher Education System

The U.S. higher education system is large, diverse, and complex. There are many different types of institutions, both public and private (see Figure 2.1). Sizes range from the Community College of the Air Force with over 60,000 students and the University of Texas at Austin, with 49,000 students, to Deep Springs College with an enrollment of 26 on a cattle and alfalfa farm in the remote desert of eastern California. The largest schools are primarily public institutions (see Table 2.1), which have two orders of magnitude more students than do smaller liberal arts schools. Even among institutions of the same type, there are significant differences in tradition, maturity, mission, prestige, academic quality, leadership style, development budget and expertise, location, and support of the local community, among other factors.

Nevertheless, there are common characteristics that differentiate academia from private enterprise, government, and other institutions. Indeed, to those who have not worked within the ivory tower, its idiosyncrasies can seem rather strange, and at times traditions such as "shared governance" can appear positively dysfunctional. Multivolume works have been written describing

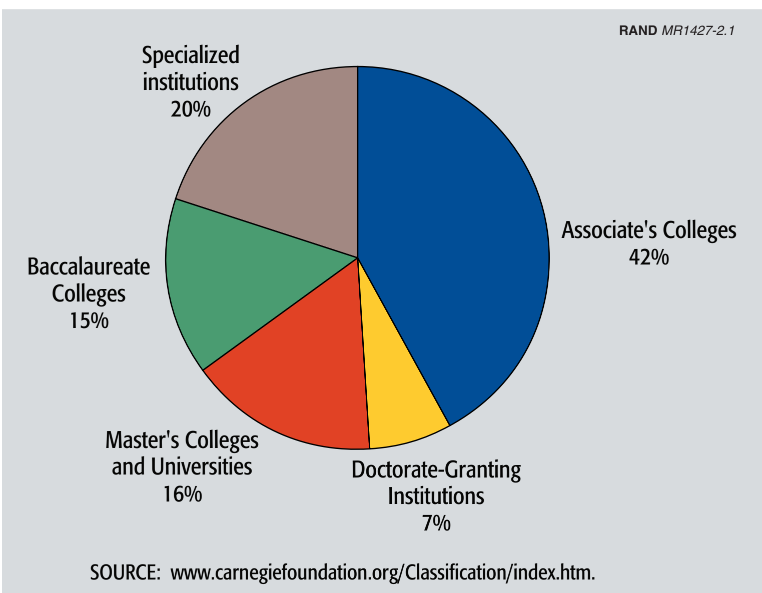


Figure 2.1 Types of higher education institutions

Table 2.1 Top 20 largest schools are primarily public institutions

Institution	State/Type	Enrollment
1. Community College of the Air Force	Alabama/Public	63,717
2. The University of Texas at Austin	Texas/Public	48,857
3. Miami-Dade Community College	Florida/Public	48,449
4. Ohio State University, Main Campus	Ohio/Public	48,278
5. University of Minnesota, Twin Cities	Minnesota/Public	45,410
6. Arizona State University, Main Campus	Arizona/Public	44,255
7. Michigan State University	Michigan/Public	42,603
8. University of Florida	Florida/Public	41,713
9. Texas A&M University	Texas/Public	41,461
10. Pennsylvania State University, Main Campus	Pennsylvania/Public	40,538
11. University of Wisconsin, Madison	Wisconsin/Public	39,699
12. Houston Community College System	Texas/Public	38,463
13. University of Illinois at Urbana	Illinois/Public	38,070
14. Purdue University, Main Campus	Indiana/Public	37,447
15. University of Michigan, Ann Arbor	Michigan/Public	36,995
16. New York University	New York/Private	36,679
17. University of California, Los Angeles	California/Public	35,558
18. University of Washington	Washington/Public	35,367
19. Northern Virginia Community College	Virginia/Public	35,221
20. Indiana University, Bloomington	Indiana/Public	34,937

SOURCE: U.S. Department of Education, National Center for Education Statistics, *Earned Degrees Conferred*; see also the Integrated Postsecondary Education Data System (IPEDS), *Fall Enrollment 1997* surveys.

this complex system in detail (see Appendix A for further reading). Rather than attempt an exhaustive review of this literature, instead we guide you through the maze of American higher education by highlighting the most prominent features that are common across institutions and then summarizing key distinctions among the different classes of institutions.

Origins and History of Higher Education

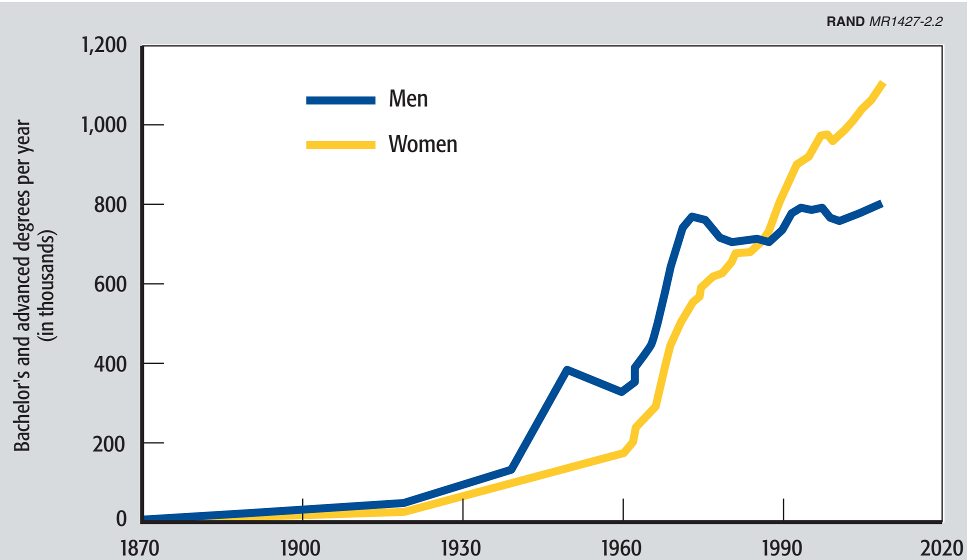
The roots of American higher education can be traced to the founding of Harvard College in 1636. Many of the nation's oldest institutions got their start training clergy, and for the first two centuries only a very small proportion of the population attended college. With the Morrill Act of 1862 and the creation of the land grant university, the ideals and customs of academic life and learning became a public guarantee to all citizens who wished to benefit from them. The combination of these two seminal events presages four key themes in the evolution of American higher education: growth, democratization, the mixture of public and private institutions, and competition.

Students and Alumni

The number of institutions, students, and college-educated alumni has grown substantially over time. Before World War II, barely 5 percent of young adults had completed four or more years of college. Today the figure is approaching 30 percent. We send a veritable army off to college each fall. Indeed, at any given time, there are now more students enrolled in postsecondary education in the United States than personnel who served in the U.S. armed forces in World Wars I and II combined.

Previously an exclusive domain of the elite, higher education has become the principal vehicle for upward social mobility for the masses. Diversification of the student body can be measured on multiple dimensions. Women now receive more college degrees than men do (see Figure 2.2). Minorities constitute more than a quarter of postsecondary students (see Figure 2.3), and student bodies are becoming increasingly international.

Figure 2.2 More women are completing degrees than men are



SOURCE: Snyder and Hoffman, 2001.

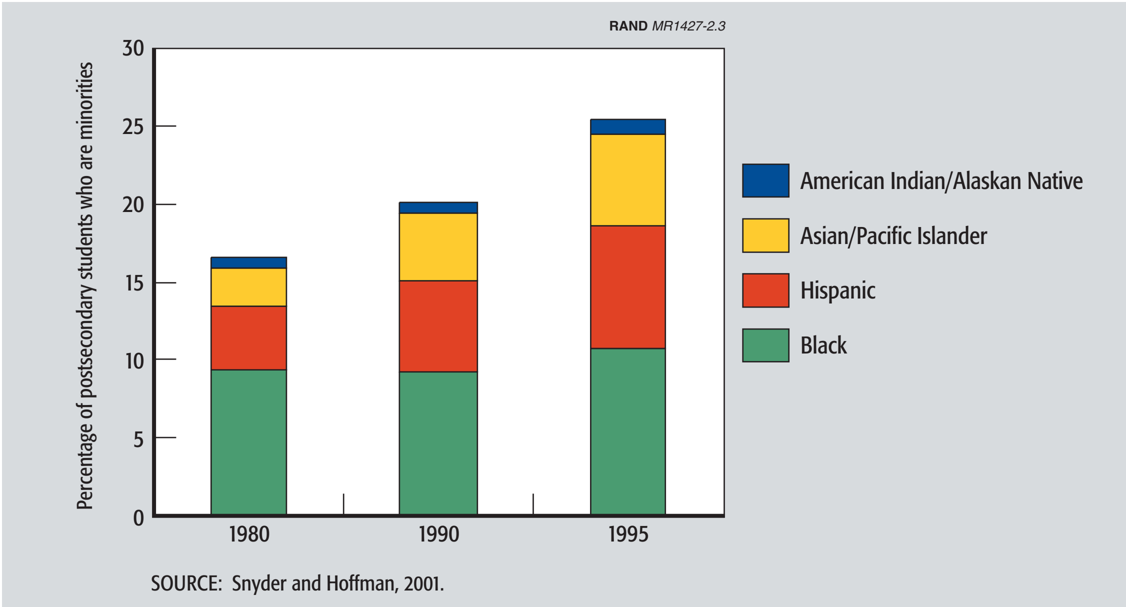


Figure 2.3 Proportion of minority postsecondary students is growing

Public Versus Private Institutions

Power over higher education in the United States is not granted to the federal government. Nowhere in the U.S. Constitution, or the subsequent amendments, does the word "education" appear. Instead, the "reserved powers" clause of the Constitution gives direct authority over education to the states, and states have exercised this authority by creating colleges and universities.

Nevertheless, the federal government does play a role in higher education through the provision of financial aid to students, enforcement of civil rights (e.g., ensuring there is some degree of parity between women's and men's access to intercollegiate sports), and funding research that is conducted on college campuses. These roles are just as prominent in "private" as in "public" institutions. For example, federal funding, most of which comes from grants and contracts for research and development, represents about 11 percent of total revenues for public institutions and about 14 percent for private institutions.

The existence and maintenance of U.S. public institutions of higher education is a matter of state statute (or less commonly, the state constitution). Such institutions receive appropriations from state governments for operating expenses, and state legislatures pass laws and regulations affecting them. The extent of state appropriations to public institutions differs dramatically. Although the University of Michigan is a public institution, state appropriations make up only about 10 percent of its total revenue, with the remainder coming from tuition, philanthropic contributions, research and development funds, ancillary activities, and endowment income. In most states, day-to-day authority over public colleges and universities is vested in executive higher education agencies or state boards of higher education, which operationalize and enforce the laws passed by the legislature as they relate to higher education.

Authority over private institutions is generally vested in boards of trustees that hire and fire presidents, set broad institutional policies, and manage the institution's funds. The largest source of revenue for most private institutions is tuition. Because these institutions receive little, if any, state funding, many state laws and regulations do not apply to them.

Although institutions are commonly labeled as public or private as if there were a well-defined distinction, in reality there is a continuum. Both types of institutions receive much of their budgets from similar sources and are treated similarly by the federal government. Furthermore, because of federal tuition aid and the very minor share of revenues some public institutions receive from state legislatures, there are likely instances of "private" schools receiving a larger share of revenues from taxpayers, directly or indirectly, than do some "public" schools.

Insights for Donors

- Donors are faced with one marketplace in which all institutions, public and private, compete for reputation, students, and funds within their categories and geographical regions. Overall it is the most competitive system of higher education in the world (Cook and Lasher, 1996). Unlike primary and secondary education institutions, higher education institutions that fail to compete can and do go out of business, and there is a widespread prediction that the intensity of competition and the amount of change in higher education is going to increase markedly over time, as in the rest of the economy (AGB, 2001).
- Signs of competition and change are already evident. Prospective students are more willing to apply to more institutions and travel farther to attend them; competition from the for-profit education sector is on the rise; and distance-learning technologies threaten the traditional campus-based organization of learning.
- For the donor, all of this means more and varied opportunities for giving to higher education. It also means your gifts can make all the difference in how this competition plays out.

Governance: Who's in Charge?

If higher education institutions must navigate the shoals of stiff competition and changing environments, who is at the helm? Historically higher education governance has been dispersed among three principal stakeholders: governing boards/trustees, administrators, and full-time faculty. In the case of a public university or multicampus university system, the executive and legislative branches of state government and, typically, a higher education coordinating agency also play a role.

> Higher education is a stovepiped maze. The decisionmaking structure in most colleges and universities is at once hierarchical and decentralized. . . . One major research university, UCLA, includes 13 schools and colleges and 72 support organizations. One of those colleges itself contains 89 departments, 28 interdisciplinary programs, 37 special study units, and 28 organized research units. The university's other organizational units are comparatively complex.
>
> —Benjamin and Carroll, 1996

Governing Boards/Trustees

Boards of trustees are ultimately responsible for governing a college or university. They hold the assets of the institutions in trust for society as a whole.

Given the size and complexity of postsecondary institutions, trustees should, and often but not always do, delegate management of the institution to the president and other executive officers, functioning instead as the principal overseers and policymakers of the academy.

President

Most institutions have a leader with the title of president or its equivalent (e.g., chancellor). In addition to articulating a vision for the school to outside constituencies, presidents retain authority over the "business operations" of the campus comparable to that of the president of a for-profit business. Institutions maintain buildings and grounds, provide food service, and run their human resources departments in a fairly efficient, business-like manner. But it would be a mistake to envision a college president's authority to act decisively in "academic"—as opposed to "business"—matters as being comparable to that of the president of a private company.

Good presidents interpret communications from the board to the faculty and from the faculty to the board. Trustees (who are usually successful business people) and faculty (who are devoted to academic pursuits) often have very different worldviews. Presidents are uniquely positioned to build bridges between these two groups because they are responsible to posterity for the successful business management of their institution, but they are themselves promoted from faculty ranks and are not professional managers.

Faculty

Two hundred years ago, faculty were relatively weak. Professionalization of the professoriat (starting before, but marked in part by formation of the American Association of University Professors [AAUP] in 1915) and growing demand for autonomy and the protection of academic ideals gave faculty a more powerful voice in "shared governance." This change became more formalized with the rise of faculty unions and collective bargaining in the 1960s, especially at public colleges and universities, where faculties have gained more decisionmaking rights over issues such as tenure, promotion, and research agendas. Even on campuses without collective bargaining, faculty tend to be strongly oriented toward their disciplines and hold considerable power, oftentimes constraining the administrative leaders. As the Boyer Report states, research universities are often "archipelagos of intellectual pursuit rather than connected and integrated communities" (Boyer Commission Report, 1998). Indeed, there is a common perception that faculty, especially at research universities, are divided in loyalties between their academic discipline and the welfare of their own institution (AGB, 2001).

Nonacademic staff and non-tenure-eligible, part-time, adjunct faculty have been increasing in numbers but have a much weaker voice in governance (AGB, 2001). In the 1960s, students gained some voice in institutional government, through representatives on university committees, although their collective power varies considerably across campuses.

Semiautonomous Fiefdoms and Ineffective Resource Allocation

Complicating this system of shared governance at larger universities is the fact that universities are composed of many semiautonomous fiefdoms. Professional schools in particular are likely to have an arm's-length fiscal relationship with the central administration. Managing these fiefdoms is further complicated by the lack of criteria for evaluating the merits of different disciplines and inadequate information for choosing among different functions. Higher education institutions have great difficulty rationally reallocating funds across units. (How does one trade off the benefits of smaller class sizes for freshmen composition versus recruiting a nationally prominent paleontologist?) Hence, institutions tend to allocate resources to all functions. Likewise within statewide higher education systems, resources are allocated to all institutions within the system. For these reasons and others, higher education is often described as a Byzantine structure with unclear priorities, dispersed power, and chaotic and ineffective resource allocation.

Is governance at postsecondary institutions really that bad? At the risk of oversimplifying, governance problems in the past were significant but not seriously detrimental, but they may have become so in recent years and could get worse—not so much because the governance systems have changed but rather because the environment is changing. The U.S. government was designed with a system of checks and balances that sought to strike the right balance between decisive and deliberative decisionmaking. Similarly, shared governance, while clearly not the most efficient system, may have usefully protected other important values, such as academic freedom (discussed below). During times of steadily growing budgets, the system worked well. However, over the last

20 years of fiscal constraints, it has worked less well. If one envisions even greater fiscal challenges and an even more rapidly changing environment in the next 20 years, it could become still more problematic.

Importantly, internal and external pressures for new and varied forms of education are ill-met by the current governance structure and traditions. This is problematic because, at a time when the level of education needed for productive employment is at an all-time high, state funding for higher education has not kept pace with enrollment or cost increases. The opportunity to go to college may be denied to millions of Americans unless sweeping changes are made to control costs, halt sharp increases in tuition, and increase other sources of revenue (Benjamin and Carroll, 1996). Likewise, universities are being called upon to play new roles, such as capitalizing commercially on university-based research efforts, contributing to economic growth and diversification, and providing an atmosphere for entrepreneurial development to meet the demands of a hyper-competitive global environment (Smilor, Dietrich, and Gibson, 1993), but universities themselves are not traditionally very entrepreneurial.

Insights for Donors

For a donor, this synopsis carries two important lessons.

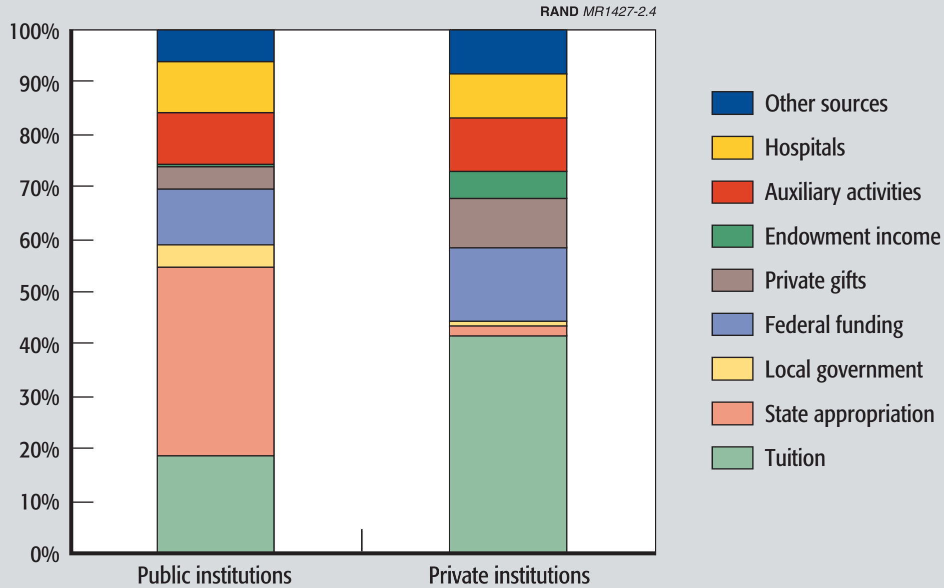
- First, don't be distressed if your favorite institution seems to have a complicated and slow-moving decision process. This may mean only that it is a typical institution, not a troubled one.
- Second, gifts that build capacity to change (as opposed to forcing a particular kind of change) may be singularly valuable. For example, university presidents, even of large and successful universities, have remarkably little "walking around money." Most revenues are earmarked, leaving few flexible funds. If the president's vision appeals to the donor but institutional inertia are impeding reform, working closely with the president to fund things that will break the logjam may be valuable.

Finances: Who Pays for What?

Institutions receive revenue from a variety of sources. Figure 2.4 shows their relative importance at public and private institutions.

Tuition

The most obvious source of revenue is tuition. The price of tuition varies dramatically across institution types. Tuition rates for 1999–2000 at the vast majority of public institutions ranged from $1,000 to $7,000 per year, while at private institutions rates stretched from $5,000 to $30,000 per year. Almost 22 percent of students attending private institutions that year were charged more than $20,000 in tuition, while only 0.7 percent of students attending public institutions were charged more than $7,000 (Chronicle



SOURCE: Barbett and Korb, 1999.
NOTE: Graph prepared from data compiled in February 1999.

Figure 2.4 Where does the money come from? Proportions of revenues of public and private institutions by source

of Higher Education, 1999–2000). Not surprisingly, for public institutions, tuition represents just 19 percent of all revenue collected, whereas for private institutions, tuition is a far larger piece of the revenue puzzle (42 percent).

Public Funds

For public institutions, the largest revenue source is state government appropriations. Together with the (much more modest) funding from local government, it accounts for 40 percent of revenues at public institutions. These appropriations amount to an enormous subsidy for all students attending public higher education and allow those institutions to keep tuition increases in check. In more favorable language, the appropriations represent an investment in the state's citizens, based on the conviction that the provision of higher education is an important and valuable public service, and that education itself is a "public good."

Other Revenues

Private and public institutions derive very similar proportions (roughly one-quarter) of their revenues from hospitals, auxiliary services, and other sources, but private institutions depend more than their public counterparts on federal funding (primarily for research), private gifts, and endowment income.

Table 2.2 Average endowment per student varies considerably by type of institution

Type of Institution	Endowment Per Student
Private research/doctoral	$ 128,300
Specialized	$ 88,300
Private liberal arts	$ 74,500
Private masters	$ 17,600
Public research/doctoral	$ 14,200
Public masters	$ 1,800
Public liberal arts	$ 1,600
Two-year	$ 400

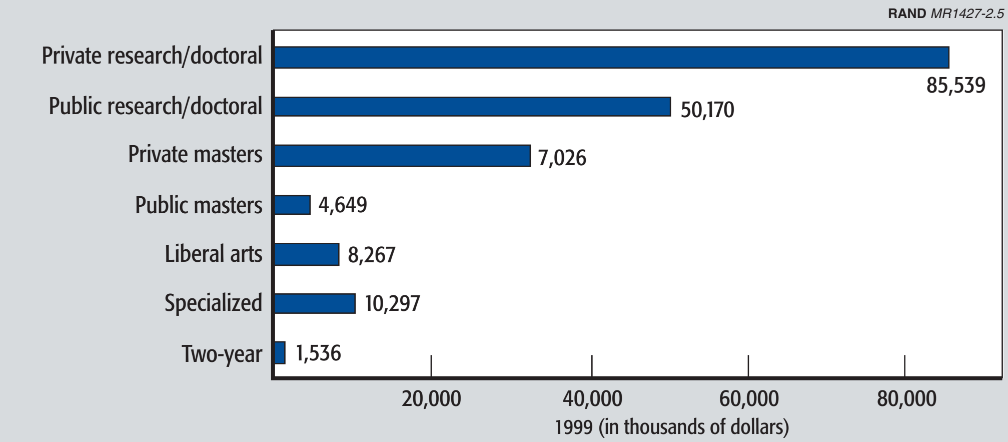
SOURCE: Council for Aid to Education, 2000a, Table 8.

In particular, endowment income is more than 5 percent of the pie for all private institutions and less than 1 percent for all public ones. Average endowment per student varies considerably by type of institution, ranging from $400 per student at two-year colleges to over $100,000 per student at private research/doctoral institutions (see Table 2.2). There is also considerable variation within a given type of institution, as Table 2.3 illustrates with data for all private research/doctoral institutions in one state (Massa-

Table 2.3 Average endowment per student also varies considerably within a given type of institution

Institution	Endowment or Long-Term Assets (thousands of dollars)	Enrollment (headcount)	Endowment Per Student
Harvard	$ 14,535,675	18,598	$ 781,572
MIT	$ 4,287,700	9,885	$ 433,758
Brandeis	$ 355,012	4,405	$ 80,593
Worcester Polytechnic Institute	$ 256,862	3,840	$ 66,891
Boston College	$ 910,926	14,689	$ 62,014
Tufts	$ 483,730	8,779	$ 55,101
Clark	$ 122,449	3,042	$ 40,253
Boston University	$ 666,100	29,544	$ 22,546
Northeastern	$ 405,818	26,290	$ 15,436

SOURCE: Council for Aid to Education, 2000a, Table 9.



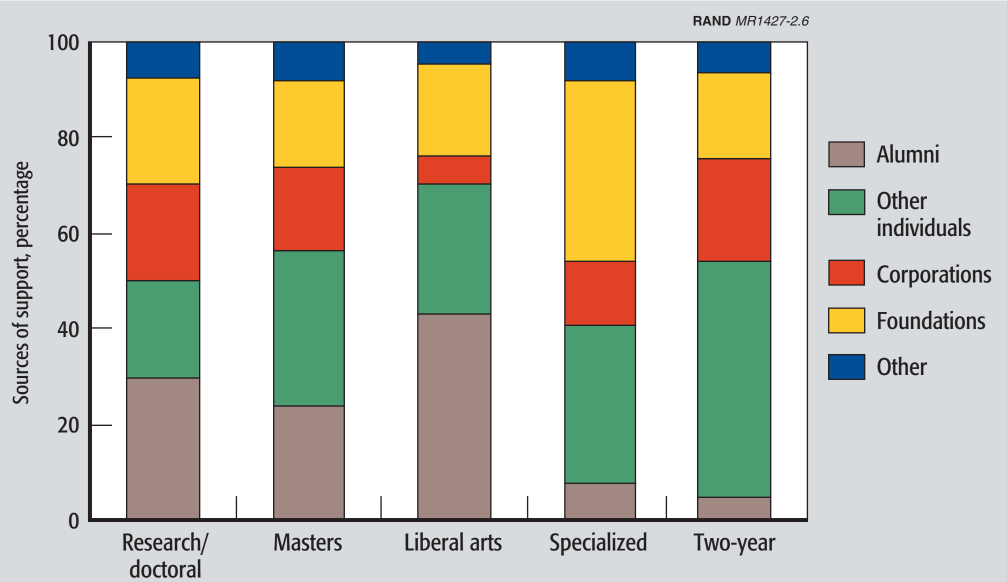
SOURCE: Council for Aid to Education, 2000a.

Figure 2.5 Average voluntary support is wide-ranging among institutions responding to the Voluntary Support of Education survey

chusetts). Endowment per student varies from $15,000 to almost $800,000 across these nine institutions.[1]

Similarly, the range of alumni and private giving across institutions is quite wide, from $1,536,000 per year for two-year colleges to $85,539,000 per year for the doctoral research institutions (see Figure 2.5). The proportion from alumni and other individuals is highest for liberal arts schools, which receive relatively little from corporations, and lowest for specialized schools, which receive more from foundations (see Figure 2.6). Private institutions

Figure 2.6 Sources of support vary by type of institution



SOURCE: Council for Aid to Education, 2000a.

[1] Harvard is only fourth on the list of highest endowment per student. Rockefeller University is first with almost ten times the endowment per student. Princeton Theological Seminary is second, and Princeton University is third.

rely on private gifts for a larger proportion of revenue (9.4 percent) than do public institutions (4.1 percent).

Giving in 1998–99 was roughly equally divided between current operations (48 percent) and capital purposes (52 percent), with almost 90 percent of these monies restricted in some sense.

Funding for Community Colleges

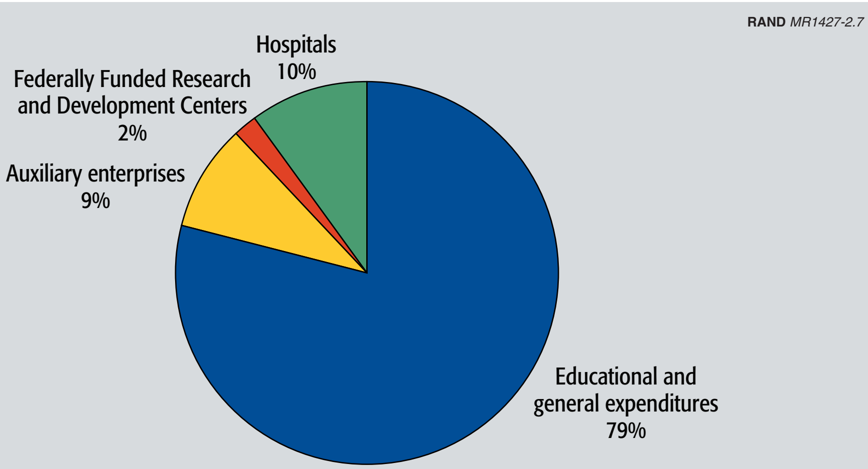
It is worth noting that community colleges, which now enroll close to half of all students in higher education, traditionally received the bulk of their funding through local and state tax support. Recently, that support has decreased at the same time that federal grant money and categorical aid have been drying up. Fortunately, corporations interested in local workforce training and foundations interested in promoting social service continue to provide large amounts of support. In addition, many community colleges have begun to establish foundations to pursue private gifts.

How Are These Billions in Revenue Spent?

Revenues from hospitals, auxiliary operations, and some other sources effectively just offset associated costs (Figure 2.7). In budget parlance, they are part of "current fund expenditures" but are not part of the "education and general expenditures" budget, whose distribution is depicted in Figure 2.8 and is of greater interest.

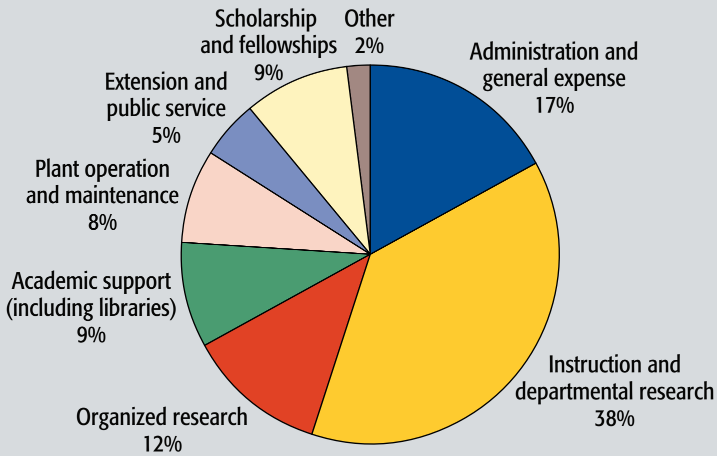
Most of the categories in Figure 2.8 are self-explanatory, but one exception may be the distinction between "organized" and "departmental" research. Organized research is essentially synony-

Figure 2.7 Hospital, research center, and auxiliary operations are not included in education and general expenditure budgets



SOURCE: U.S. Department of Education, National Center for Education Statistics, *Biennial Survey of Education in the United States*; see also Higher Education General Information Survey (HEGIS), *Financial Statistics of Institutions of Higher Education*; and Integrated Postsecondary Education Data System (IPEDS), *Finance* surveys.

NOTE: Graph prepared from data compiled in October 1998.



SOURCE: U.S. Department of Education, National Center for Education Statistics, *Biennial Survey of Education in the United States*; see also Higher Education General Information Survey (HEGIS), *Financial Statistics of Institutions of Higher Education*; and Integrated Postsecondary Education Data System (IPEDS), *Finance* surveys.
NOTE: Graph prepared from data compiled in October 1998.

Figure 2.8 Where does the money go? (distribution of education and general expenditure dollars)

mous with externally funded research. Departmental research refers to research that faculty conduct "on hard money" with the portion of their workweek that is not occupied with classroom teaching and other activities. In engineering and the sciences, most research is externally funded, in part for the simple reason that expensive laboratory equipment is required. In the humanities, a greater share of the research is of the lone-scholar-in-the-stacks variety, much of which does not receive explicit funding.

Departmental research is usually lumped with teaching because it is viewed as enhancing the quality of the educational experience, but this distinction between organized and departmental research allows a university to claim that it gives customers of both the education and research missions more than they are paying for. If we combine departmental research with funded, organized research, universities produce substantially more research than is paid for by funding agencies, such as the National Science Foundation. On the other hand, students get more than what they pay for through tuition—if we combine departmental research with instruction.

The other subtlety in terms of what students get for their dollar stems from the fact that postsecondary institutions—for which tuition is an important revenue source—themselves give back much of that revenue in the form of scholarships and fellowships, a practice that is sometimes called "tuition discounting." In some programs, the average discount can be one-third of the

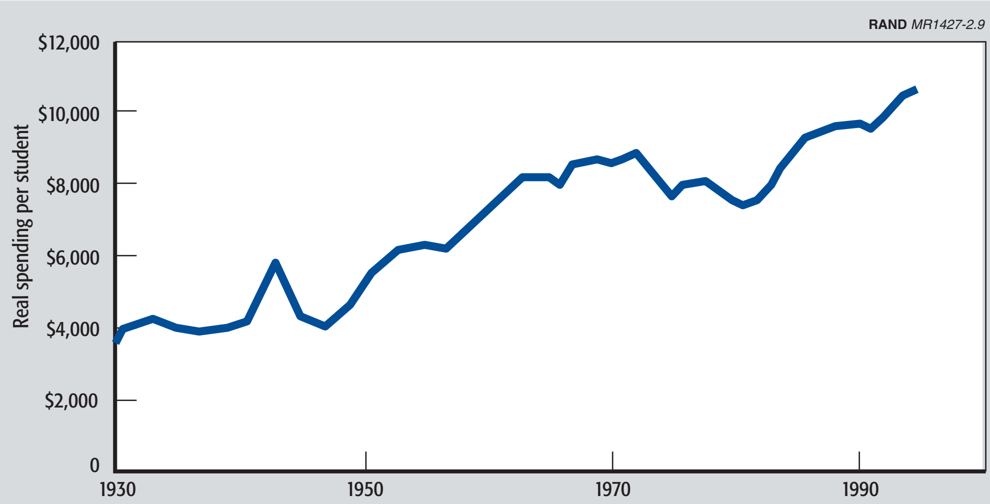
Insights for Donors

Why does it seem to require such a large donation to accomplish anything at an institution of higher education?

- An important part of the answer is that real spending per student continues to increase (Figure 2.9). Despite all of the technology that surrounds universities, education is still a labor-intensive service that has not been successfully mechanized, and those service workers—also known as professors—are very highly educated. The cerebral pleasures of being a professor (working with young people, constantly learning new things, and working in a pleasant physical environment) allow universities to attract talented faculty at lower salaries than those individuals could command in the business world, but there is a limit to such economizing. Cerebral rewards don't pay the mortgage. During the 1970s, postsecondary institutions flirted with lower real wages for faculty (Figure 2.10), but spent the 1980s struggling to reverse course, having concluded that cutting corners on faculty is penny wise and pound foolish (see Ehrenberg, 2000). That scramble contributed significantly to the considerable rise in tuition, which was faster than inflation for an extended period.
- "What do faculty do all day?" The formal obligations of teaching are not onerous, and the lack of oversight makes it easy to shirk, if one were so inclined. Indeed, at research universities, faculty spend less than 25 hours per week teaching (see Figure 2.11). Yet overall, faculty work about as many hours a week as do other professionals, and interestingly, faculty work the longest hours in research universities where they spend the least time teaching and arguably are subject to the least supervision. This pattern is one reflection of the extent to which faculty work for intrinsic rather than extrinsic rewards within a culture that is quite distinct.

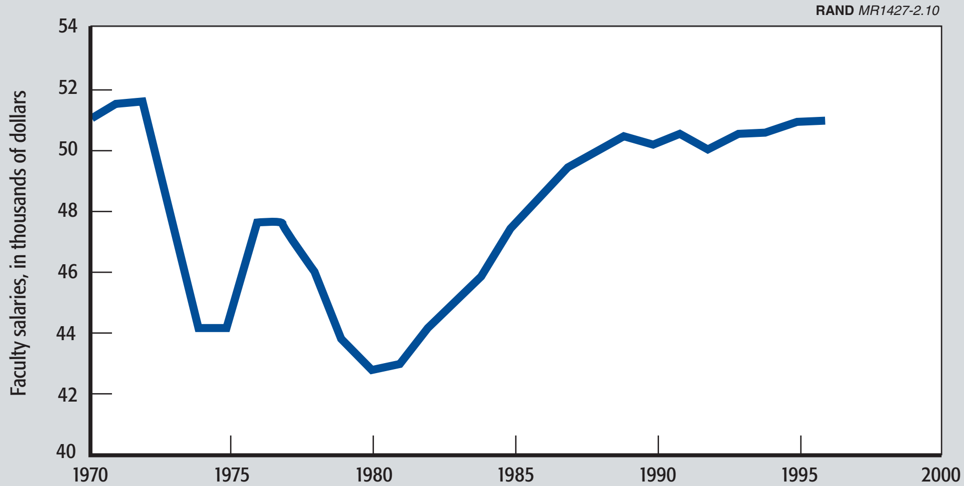
"sticker price." This implies that there is a substantial cross-subsidy among students, with more-affluent students who pay full tuition being charged more than the cost of instruction, while students receiving financial aid are charged less than the average cost of instruction. Exactly who subsidizes whom is more apparent in the aggregate than at the individual level, because need-based aid

Figure 2.9 Real spending per student has increased (constant 1995 dollars)



SOURCE: U.S. Department of Education, National Center for Education Statistics, *Biennial Survey of Education in the United States*; see also Higher Education General Information Survey (HEGIS), *Financial Statistics of Institutions of Higher Education*; and Integrated Postsecondary Education Data System (IPEDS), *Finance* surveys.

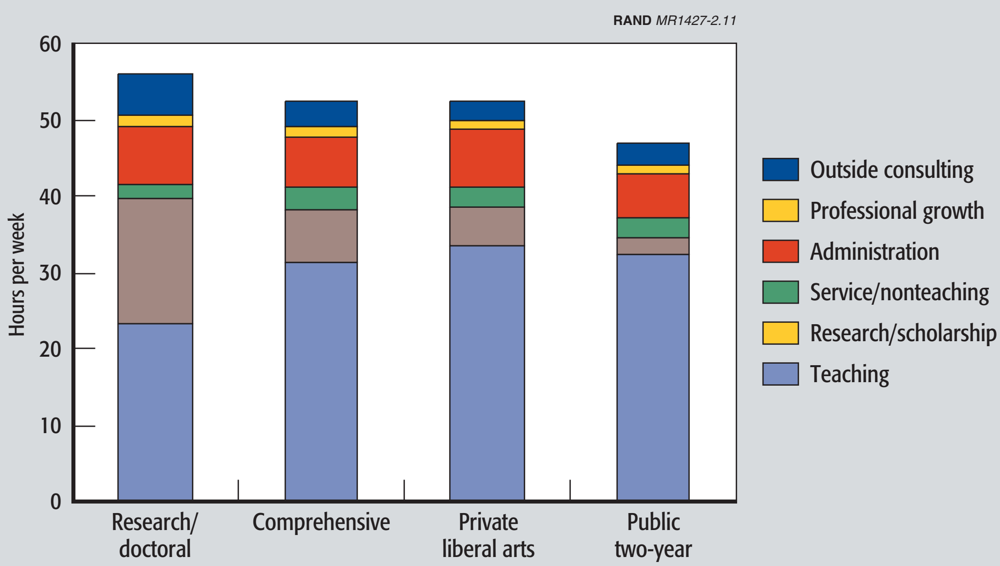
NOTE: Graph prepared from data compiled in October 1998.



SOURCE: U.S. Department of Education, National Center for Education Statistics, *Biennial Survey of Education in the United States*; see also Higher Education General Information Survey (HEGIS), *Salaries and Tenure of Full-Time Instructional Faculty* surveys; Integrated Postsecondary Education Data System (IPEDS), *Salaries, Tenure, and Fringe Benefits of Full-Time Instructional Faculty* surveys; and Brown, 1999.
NOTE: Graph prepared from data compiled in February 1998.

Figure 2.10 Faculty salaries have recovered from 1970s declines (average salary of full-time faculty on nine-month contracts, 1996–1997 dollars)

Figure 2.11 What do faculty do all day? Workload for full-time faculty (hours/week)



SOURCE: U.S. Department of Education, 1993.

from the school is commingled with merit-based scholarships from the school and aid from a variety of other sources, including the federal government.

Norms and Values: What Does It All Mean?

Higher education's traditional missions are research, training, and service. They are premised on strongly held norms and cultural values such as academic freedom, tenure, an emphasis on publishing, the importance of diversity and tolerance, and internally defined benchmarks of academic "quality." These essential attributes of the "culture" of higher education are alien to most people who are not themselves in these institutions (see, for example, Netherton, 1996). One person we interviewed summed it up succinctly: "Academe is wired differently than any corporation or business."

Academic Freedom

Perhaps the most perplexing value is academic freedom. A very useful interpretation is that given by Supreme Court Justice Felix Frankfurter, citing senior scholars from the University of Cape Town and the University of the Witwatersrand, in a decision on the loyalty oath controversy:

> It is the business of a university to provide that atmosphere which is most conducive to speculation, experiment, and creation. It is an atmosphere in which there prevail "the four essential freedoms" of a university—to determine for itself on academic grounds who may teach, what may be taught, how it shall be taught, and who may be admitted to study (*Sweezy v. New Hampshire*, 1957).

> We've existed as a mystery for years, and it's not going to work anymore.
>
> —Interview subject of this study

Institutions of higher education serve the public good, but they bristle at the public or almost anyone else telling them how they should do so. It is a peculiar form of almost paternalistic service when the servant refuses to take orders from the customer. Yet, as with many characteristics of higher education that seem odd at first, there is a reason.

The basic premise is that paradigmatic breakthroughs, the truly creative ideas, come from letting smart people who are intrinsically motivated by the pursuit of ideas follow their passion with minimal oversight or meddling. Not only is it hard for the lay public to judge whether a cosmologist is on to a truly great idea or just recycling theories from the 1990s, it is not even easy for the physicist's dean, who may be a microbiologist, to make such judgments.

Quality

Academic quality is often best judged by peers, most often based on the ability to publish articles in peer-reviewed journals where the reviewers do not know the author's identity at the time of review. Quality on this or some similar dimension can be paramount. If a cosmologist figures out what happened during the first ten-millionth of a second after the creation of the universe, her colleagues tend not to worry very much about how she dresses; what, if any, religion she professes; or what her sexual preferences are. Postsecondary education is highly tolerant of diversity as long as the faculty measure up to internally defined meritocratic notions of quality.

Tenure

Faculty can be, in some sense, like artists, dancing to the beat of their own drum, rarely appreciated in their own time, occasionally—but by no means always—praised widely years later. Also like artists, most innovate but make no important breakthroughs. Only a minority who dare to think boldly new thoughts come up with anything worthwhile.

This risk, that a talented person can work diligently for many years and come up dry, is an important argument for tenure. The usual first defense of tenure is to protect faculty's right to espouse ideas that are politically unpopular. That is indeed an important benefit of tenure, particularly in disciplines such as political science. At least as important though is the guarantee that minimal results for a period of years will not lead to dismissal, since many important ideas take longer than that to germinate and, when exploring truly unknown territory, diligence and talent are no guarantee of success.

It takes a unique culture to induce brilliant people to invest a decade or more of their life swinging for a home run when even success beyond one's wildest dreams brings only modest monetary reward. The culture of postsecondary education succeeds at this, but at a price. Eliminating tenure would let administrators root out dead wood. Giving deans more authority over what is taught

Insights for Donors

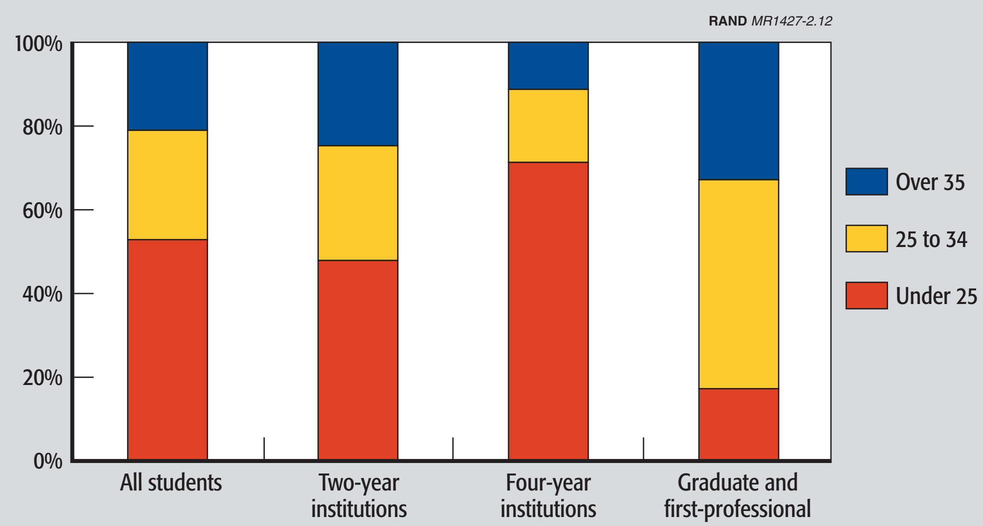
- It is not important to decide whether the culture of higher education brings more benefits than costs, or what reforms might improve its efficiency without sacrificing creativity.
- What is important is simply to recognize that higher education does have a distinctive culture that brings benefits and costs, and from your point of view, as a prospective donor, one of those costs is that institutions of higher education have a strong aversion to giving donors powers that would undermine the four essential freedoms outlined by Judge Frankfurter.

would make it easier to fashion coherent curricula rather than smorgasbord course offerings. Giving donors the power to pick who should occupy the chair they endow and what that person is allowed to publish might increase donations in the short run and inject some of the "real world" into the somewhat pedantic ivory tower. However, any one of those changes would severely threaten an institution's ability to attract the best and the brightest. Outstanding faculty increasingly behave like free agents in professional sports—playing for the team that offers the best deal. (For more on the origins, purposes, costs, benefits, and current attacks on academic tenure, see Richard P. Chait's chapter in *Governing Independent Colleges and Universities,* [Ingram et al., 1993].)

Understanding Today's Students: Who Are They and What Do They Care About?

College campuses and the students who inhabit them are the defining characteristic of an institution of higher education, so it is important for donors to understand them. If your impressions of college student life were formed in the 1950s or 1960s and subsequently shaped by media portrayals of contemporary students (usually as aimless, apathetic slackers, Schroeder, 2000), it may be important for you to visit those campuses you might be interested in supporting.

Figure 2.12 Half of all college students are "nontraditional" (over age 25)



SOURCE: U.S. Department of Education, National Center for Education Statistics, data from "The 1995–1996 National Postsecondary Student Aid Study."
NOTE: Graph prepared from data compiled in November 1997.

Here are some things you may discover:

- Students are no longer a relatively privileged, white, male homogenous lot. More than half are female, and minority representation on campuses is growing. Moreover, nontraditional students (those over age 25) are common (see Figure 2.12), and international students represent the majority of students in some, particularly graduate, programs.
- Campuses continue to incubate activism. (Recall Thomas Jefferson's vision of the role of higher education institutions in preparing citizens capable of questioning the authority of establishment institutions, governmental or otherwise.) Yet riots and flag burnings are rare. Traditional political groups have declined, while racial, ethnic, and gender support and advocacy groups have grown. Activism today is as likely to be directed at high college costs or health benefits for same-sex domestic partners as U.S. foreign policy.
- Massive increases in financial aid have made colleges more egalitarian. Yet even a full scholarship does not pay for food, so more contemporary students work and work longer hours in addition to taking classes than did students in prior decades.
- Weak secondary schools graduate many bright students who are unprepared for college. (One-third report taking basic-skills or remedial courses in reading, math, or writing.) Not surprisingly, only about half of today's students graduate within four years. (Significantly more graduate within six years, requiring extra time to make enough money to pay for their final years.)
- Many students—particularly those graduating with large student loans—are more focused on financial and professional success than pursuit of a classic liberal arts agenda. This is reflected in the fact that business is the most common major today, and there are almost as many engineering students as liberal arts majors (see Table 2.4).
- Surveys report students' stress levels have been rising (Sax et al., 1999), and substance abuse is a real problem, with almost half of college students binge drinking.

Table 2.4 Business is the most common major

Field of Study	Students (in thousands)	Field of Study	Students (in thousands)
Undeclared	3,523	Communications/journalism	335
Business	2,949	Public administration/social work	241
Health	2,157	Mechanics/transportation	230
Education	1,590	Industrial arts	210
Letters/liberal studies	1,340	Agriculture	204
Engineering	1,002	Other/unknown	181
Social sciences	713	Physical science	178
Law	636	Interdisciplinary science	153
Visual and performing arts	603	Mathematics	113
Life sciences	558	Philosophy and religion	90
Computer science	554	Medicine/dentistry	83
Psychology	495	Architecture/city planning	82
Home economics	473	Library science	24
		Total	**19,444**

SOURCE: U.S. Department of Education, National Center for Education Statistics, data from "The 1995–1996 National Postsecondary Student Aid Study."

Making Sense of the Complexity: The Carnegie Classification System

To provide a more structured way of thinking about the enterprise of higher education in America, the Carnegie Foundation for the Advancement of Teaching has developed the Carnegie Classification System (see Table 2.5) and *www.carnegiefoundation.org/classification/index.htm*. The original system, developed in the early 1970s, was revised in 2000 to include six general categories: (1) doctoral/ research, (2) master's, (3) baccalaureate, (4) associate, (5) specialized, and (6) tribal, with further intra-category delineations (see Table 2.5). The most significant changes were the addition of the associate and tribal categories and the merging of the doctoral classification with the research designation, satisfying those institutions formerly classified as "doctoral" that believed their research activities were being ignored, or slighted, under the old system.

We offer below some broad *generalizations* (with the necessary caveats) to help you begin to think about giving strategies with respect to institutions of different types. However, it is important to note that not all schools fall neatly into just one category and

Table 2.5 Number of institutions by Carnegie classification

Category	Public	Private, not-for-profit	Private, for-profit
Doctorate-granting institutions			
Doctoral/research universities–extensive[a]	102	49	0
Doctoral/research universities–intensive[a]	64	44	2
Master's colleges and universities			
Master's colleges and universities I	249	246	1
Master's colleges and universities II	23	85	7
Baccalaureate colleges			
Baccalaureate colleges–liberal arts	26	202	0
Baccalaureate colleges–general	50	266	5
Baccalaureate/associate's colleges	15	31	11
Associate's colleges	1,025	159	485
Specialized institutions			
Theological seminaries and other specialized faith-related institutions	0	311	1
Medical schools and medical centers	30	24	0
Other separate health profession schools	2	84	11
Schools of engineering and technology	9	16	41
Schools of business and management	0	34	15
Schools of art, music, and design	5	57	25
Schools of law	2	21	2
Teachers colleges	1	5	0
Other specialized institutions	18	41	11
Tribal colleges and universities	22	6	0
Total	**1,643**	**1,681**	**617**

SOURCE: www.carnegiefoundation.org/Classification/index.htm.

[a] A distinction is made between "extensive" and "intensive" based on scale: "extensive" institutions offer more doctorates, in a greater variety of disciplines.

that a school's status can change over time (e.g., a private institution can become a public one). A variety of web resources are available to help you find out about different schools. For example, the National Science Foundation *(www.nsf.gov/sbe/srs/profiles/toc.htm)* provides easily searchable information on the amount of research funding and number of graduate students in various disciplines for all higher education institutions in the United States that conduct research.

Doctoral/Research Institutions: The "Haves" in American Higher Education

The first institutional type, "doctoral/research," refers to the best-known institutions on the American higher education landscape, including all of the Ivy League schools; the leading private, non–Ivy League institutions; and most of the flagship public universities. A distinction is made between "extensive" and "intensive" based on scale: "Extensive" institutions offer more doctorates, in a greater variety of disciplines. The top three institutions in terms of number of doctorates awarded in 1998 were all "doctoral/research extensive" institutions: the University of Texas at Austin, the University of Wisconsin at Madison, and the University of California at Berkeley. While these institutions make up less than 10 percent of the nation's colleges and universities, fully one-third of the nation's college graduates receive their undergraduate degrees from a research university. Nevertheless, there is an inclination for these institutions to favor the education of graduate students (students pursuing a master's, doctorate, and/or professional degree). Indeed, doctoral/research institutions conduct the majority of the nation's research in most fields.

Insights for Donors

- Since these institutions are already relatively wealthy, and they receive a number of comparatively large gifts each year, your gift will make less of a "splash" at one of these institutions than at a less affluent institution.
- If you are looking to support a large-scale, advanced, or unique research program, this category of institutions will have the necessary research infrastructure.
- These institutions are akin to "supertankers," and as such, they are harder to move, take more time to react, and have larger administrative bureaucracies. If you are looking for rapid and dramatic changes in an institution as the result of a gift, you are likely to be disappointed giving to this category of schools.
- By the same token, these institutions are not monolithic. They are divided into an array of smaller administrative units, such as colleges/schools, centers, institutes, and programs, which might be more relevant—and responsive—to a donor's specific intentions.

In a word, these institutions are the "haves" in American higher education. Collectively, they house libraries with the largest collections, operate the most advanced facilities, and field the most successful athletic teams. They are also the institutions that receive the most federal research and development money and have the largest endowments. With experienced and well-trained development staff, they raise substantial sums of money from alumni, other individuals, corporations, and foundations. They continue to grow and prosper because success breeds success and money begets money.

Master's Institutions: The Vast Middle Ground

Master's institutions occupy the vast center of American higher education. They are not as large and well-known as the "doctoral/research" institutions, but they are generally larger and more prominent than most "baccalaureate" institutions. They also occupy the middle of the degree spectrum—they are committed to education beyond the bachelor's degree to the master's degree, but not beyond to the doctorate. Within this general classification

Insights for Donors

- Gifts to these institutions will have a bigger institutional impact and/or leverage greater institutional change here than elsewhere.
- Depending on the financial and political climate in a particular state, you may find some master's institutions in great need.
- If you are looking to give a gift based on faith or religious beliefs, a list of privately controlled master's institutions will provide a good start for possibilities.

are institutions as diverse as the Citadel Military College of South Carolina and Gallaudet University (which specializes in education for the hearing-impaired) in Washington, D.C.

The publicly controlled institutions in this category represent the efforts of many state governments to provide affordable, accessible higher education to the majority of the college-going population. A good example of this is the California State University system, which consists of 23 campuses throughout the state that charge very reasonable tuition rates. Among the privately controlled institutions in this category are a large number of religiously affiliated institutions (particularly Catholic institutions) that cater to adherents of a particular denomination.

If "doctorate/research" institutions are supertankers, then these institutions are submarines—smaller but still somewhat unwieldy. They tend not to appear on most radar screens because they lack a high-profile athletic program or a major research agenda. Generally speaking, these institutions are not especially affluent; very few have endowments in excess of $100 million. (Almost all of those institutions with endowments in excess of $100 million are either "doctoral/research" institutions or private, prestigious "baccalaureate liberal arts" institutions.) The publicly controlled master's institutions are very dependent on state appropriations (more so than public "doctorate/research" institutions) as a revenue stream, and as such, their financial fortunes often rise and fall based on the state's financial health and the degree to which they are able to curry political favor in the state government. The constituencies for these institutions are largely regional, either within a single state or a geographic cluster of parts of multiple states close to the campus.

Baccalaureate Colleges: The Four-Year Liberal Arts Institutions

The "baccalaureate" institutions are subdivided into three groups: liberal arts, general, and associate. The distinction between these designations is less a matter of scale and more a matter of curricular focus. Among "baccalaureate liberal arts" institutions, at least half of all degrees conferred are awarded in liberal arts fields (i.e., the life and physical sciences, social sciences, arts, and the humanities). In "baccalaureate general" institutions, fewer than half of the degrees are awarded in these fields; instead, the majority of degrees are awarded in applied, technical, and vocational fields. And in "baccalaureate associate" institutions, the majority of the degrees awarded are at the associate or certificate level.

Baccalaureate institutions are the antithesis of "doctoral/research" institutions in that they focus almost solely on teaching, and they conduct practically no research. Another significant characteristic is that the majority of all "baccalaureate" institutions are private, nonprofit institutions. Many are also religiously affiliated, although the strength of this affiliation varies widely. And for the most part, these institutions are less structurally complex than the preceding institutional types; most consist of a single college, instead of multiple schools and colleges for different fields. Among the private, "baccalaureate liberal arts" institutions are the most prestigious, small- to medium-sized institutions in the country, including Amherst, Swarthmore, and Reed Colleges.

Insights for Donors

- If you want to fund research projects, you will find very few opportunities in this category of institutions.
- If you are looking to fund teaching initiatives and new innovations in undergraduate education, you will find a wealth of possibilities.
- Since most "baccalaureate" institutions are private, their major stream of revenue comes from tuition. This creates a different financial dynamic, but still offers a good giving environment for donors.
- If you want to fund less traditional programs, among the few public "baccalaureate liberal arts" institutions are some of the nation's most innovative higher education experiments, including programs at California State University at Monterey Bay, the New College of the University of South Florida, and the Evergreen State College.

Associate Colleges: The Two-Year Technical Schools

Associate institutions are primarily community, junior, and technical

Insights for Donors

- If you are seeking to make a gift to a very results-oriented, market-driven institution, you will find a plethora of possibilities in this group.
- Since many of these institutions are community-based, if you want to help promote leadership in your community through training, these schools are a good place to start.
- Your gift will be a welcome novelty since these institutions do not receive many gifts from individuals.
- You should find easy access to the chief executive since these institutions are very lean in terms of administration.
- The flexibility to add a class or curriculum quickly (i.e., 60 days) will be greater at these institutions since they do not need approval from the state board of higher education as four-year schools do.
- As a cautionary note, you should do a careful check of the institution's financial status to ensure that your gift will not be wasted on a school that is not likely to survive. Feel free to ask to see the institution's financial statements. As of 1993, when the Financial Accounting Standards Board issued new guidance, financial statements for nonprofit organizations are quite similar to those of for-profit organizations. McCarthy et al. (1998) offers a brief primer on reading and interpreting financial statements of post-secondary institutions, with citations to further resources.

colleges, which for the most part are two-year institutions where students receive either an associate's degree or a certificate in a trade or vocational field. These institutions seek to provide their students with readily marketable skills and credentials. They train computer technicians and refrigerator repair people. They do not educate anthropologists and physicists.

This category is by far the largest of the Carnegie Classification groups, totaling approximately 1,700, or nearly half of higher education institutions in America. The quality, longevity, and integrity of these institutions vary widely. Some have been in operation for many years, while new ones spring up, and shut down, every month. They are entirely tuition-driven, and even modest fluctuations in enrollment can spell financial disaster. This grouping also contains the largest number of for-profit institutions, including the ITT technical institutes and art institutes in various cities around the country.

Specialized Institutions

The Carnegie Foundation enumerates eight different types of specialized institutions: theological and faith-related institutions; medical schools; health profession schools; schools of engineering and technology; schools of business and management; schools of art, music, and design; law schools; and teachers colleges. There is a final, catchall category of specialized institutions that do not fall neatly into any other classification, including institutions that generally award degrees in only one field, or a handful of related fields. Within this classification are institutions as vastly different as the Episcopal Divinity School, the United States Naval Academy, and the Pratt School of Architecture. As with the "associate institutions," however, the quality can vary substantially.

Insights for Donors

- If you have an interest in giving to a particular field or occupation, you may well find an institution in this category that caters to that population.
- These institutions are not generally a part of a larger university, although some (especially medical schools) may be affiliated with other institutions or systems. They are, as a result, much smaller and more streamlined than other Carnegie institutional types.

Tribal Institutions

Tribal colleges are institutions of higher education that are located on American Indian reservations and controlled by tribal governments. There are about 25 of these institutions in total, concentrated in a handful of states: North Dakota, South Dakota, and Montana. These institutions serve a vital purpose as the providers

Insights for Donors

- If you have a special interest in Native American issues, or in funding a financially strapped but very important segment of American higher education, you could find a number of deserving recipients among the tribal colleges.

of higher education to Native American students who tend to come from very disadvantaged backgrounds, and who might not otherwise attend college if it meant leaving the reservation.

Other Institutional Categories

Included within the Carnegie Classification System types are two categories of higher education institutions that have missions to serve a particular population.

Historically Black Colleges and Universities

The first category, historically black colleges and universities (HBCUs), developed from the Second Morrill Act of 1890. This act withheld federal land-grant funds from institutions that discriminated in admission because of race. States could, however, create separate institutions to serve black students. This loophole in the Second Morrill Act was the genesis for most of the HBCUs.

Insights for Donors

- This class of institutions remains significantly underfunded and financially at risk. If you have a particular interest in black culture, history, education, and opportunity, you will find no better destination for your gift.

Because of their historically significant missions and service, these institutions receive special consideration from the federal government under an executive order signed by President Clinton in 1993.

There are approximately 120 of these institutions, and most of them are located in the southeast. All started as institutions serving black students, and the student bodies of most remain predominantly black. In a couple of cases, however, the institutions now serve a predominantly white student population. These institutions span all of the major Carnegie Classification types, from Alabama Agricultural and Mechanical University, a "doctoral/research intensive" institution, to Hinds Community College in Mississippi, an "associate" institution. Among the HBCUs are a number of the nation's most historic and important centers of black culture and education, including Fisk, Grambling, Howard, Morehouse, Spelman, and Tuskegee.

> Public and independent nonprofit colleges and universities are unique among social institutions in that their missions require them to work to benefit the whole of society through teaching, research, and service.
>
> —Association of Governing Boards of Universities and Colleges, 2001.

Institutions Serving Hispanics

The other major category of institutions serving a targeted population is the Hispanic-Serving Institutions (HSIs). Title V of the Higher Education Act of 1965 defined this institutional type as "accredited and degree-granting public or private nonprofit institutions with at least 25 percent or more total undergraduate Hispanic full-time equivalent student enrollment." There are approximately 200 of these institutions, although institutions may apply at any time for the status. Like HBCUs, HSIs run the Carnegie Classification System spectrum, from the University of Texas at El Paso, a "doctoral/research intensive" institution, to Miami-Dade Community College, one of the nation's largest "associate" institutions.

> **Insights for Donors**
>
> - If you are interested in Hispanic history, culture, education, and opportunity, HSIs provide a wealth of giving possibilities.

• • •

In sum, the world of higher education is at once monolithic and diverse, marvelous and maddening. While institutions may share common norms and values, they differ tremendously in terms of mission, governance, finances, and structure. Certainly we cannot presume in this brief chapter to have brought order where chaos so utterly and magnificently reigns. It is hoped, however, that our discussion of general trends and particular institutional types may have dispelled some misconceptions and offered a sample of the spirit of the sector that you plan to support. From the largest, most well-known Ivy League school down to the smallest specialized institution on an American Indian reservation, opportunities abound for you to make a gift that makes a difference.

3 Fundraising Inside the Ivory Tower

Over time, higher education fundraising has evolved into a high-tech, multimillion dollar business with highly trained professional staff and wide-ranging strategies. Different institutions use different terms, but commonly "advancement" refers to all activities that build awareness and support from constituents, including alumni relations, public relations, and government relations. "Development" generally focuses more narrowly on acquiring financial support for the institution's programs. From the institution's perspective, none of this is wasteful or burdensome overhead. A clear and consistent association is found between dollars spent on fundraising and the results of fundraising. Simply put, you have to spend money to raise money.

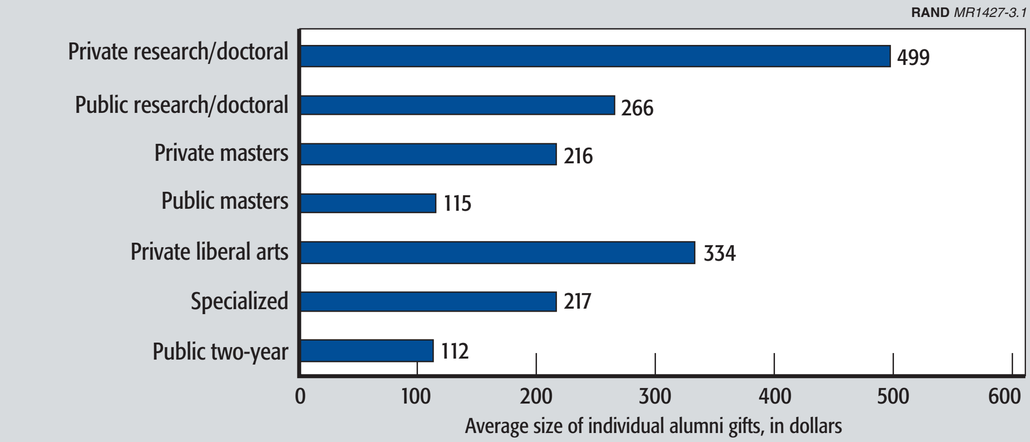
Most readers of this book will be prospective donors of what are called "major gifts." As such you will become part of a select group of benefactors that provides as much as 90 percent of any higher education institution's philanthropic support from individuals. In many ways you will be doing more than giving a gift, you will be embarking on a new and exciting relationship—a relationship that begins with your identification, continues through cultivation, culminates in the "ask," and is maintained over the long-term through stewardship. We describe the primary steps in this process below, including the context within which they will take place and the parties that will be involved. We begin with some general background information on higher education fundraising programs and players.

> Development is like a business. There's a product (e.g., a building), a seller (the institution), and a buyer (the donor).
>
> —Interview subject of this study

Basic Fundraising Programs

Annual Giving Programs

An institution's annual giving program (typically small, unrestricted gifts made on a yearly basis to support annual budgets or general operations) tends to be a minor source of funds but a major source of prospects to cultivate. Since the vast majority of donors to colleges are alumni, annual fund officers heavily target both alumni and their parents. Average contributions to the annual fund range from $100 for a community college to over $500 for a large, four-



SOURCE: Council for Aid to Education, 2000b.

Figure 3.1 Average size of individual alumni gifts varies across institutions

year university (see Figure 3.1). At a small college there might be only 200 people who give $500 or more to the annual fund, and only 100 who give $750 and over. Different levels of giving are recognized by a variety of methods, ranging from thank-you letters, to calls and visits from the development staff, to a luncheon with the college president.

As a prospective major donor you may want to consider starting a relationship with a school by giving to the annual fund. This is a good way to get more information about the institution (e.g., through annual reports and newsletters) as well as attention. You can also signal to the school that you are a prospective major donor by giving an annual fund gift each year that is large for the annual fund though still much smaller than your eventual "major gift" will be. Normally at least the top 200 annual fund donors, and more at larger schools, are noted and discussed as major gift prospects.

> People do not give to institutions; people give to people.
>
> –Maxim of development

Major Fundraising Campaigns

The majority of dollars, although a minority of gifts, are raised through "campaigns" or organized efforts to raise a specified amount of money for a particular purpose in a specified period of time. In recent years, major fundraising campaigns have become more frequent, more elaborate and sophisticated, longer in duration, and larger in size as U.S. colleges and universities have struggled to make ends meet. Harvard Law School, for example, is expected to announce the largest campaign ever for a professional school ($500 million). Major campaigns can be "bricks and mortar" (or capital) campaigns to fund the construction of the physical plant, including facilities and furnishings, or more general campaigns to raise funds for operating expenses and, often, endowment.

Dollar goals of campaigns can range anywhere from $1 million to well over $1 billion and depend on the size, age, resources, and priorities of the institution. While capital campaigns usually run for about three to five years or more followed by a break of another few years, this "time off" is deceptive because the next capital campaign is in the "quiet phase" for several years before it becomes fully activated. As much as 35 to 38 percent of capital campaign funds are raised during the quiet phase (Pocock, 1989). At any given time roughly half of all private higher education institutions are in the midst of an active capital campaign.

If you contact a development officer during a campaign, the development officer is going to think of you in the context of that campaign. However, you should not feel pressured to adhere to the campaign "deadlines," since they are really quite artificial. Often campaign pledges are fulfilled over several years. Major donors who anticipate a 15-year relationship with an institution should also anticipate being part of more than one capital campaign.

> **Serving as a college or university trustee surely is the crown jewel of public service.**
>
> —Richard T. Ingram, President, Association of Governing Boards of Universities and Colleges (AGB, 1995, p. 1)

The Principal Players

President and Trustees

Academic presidents have been involved in raising money for their institutions throughout history, and despite the advent of professional development staffs and fundraising consultants, the presidential fundraising role has not diminished in importance (Cook and Lasher, 1996). Chief executives of private institutions report spending 25 to 30 percent of their time on direct fundraising (Pocock, 1989). Most of their efforts tend to be concentrated on cultivating and soliciting major gifts.

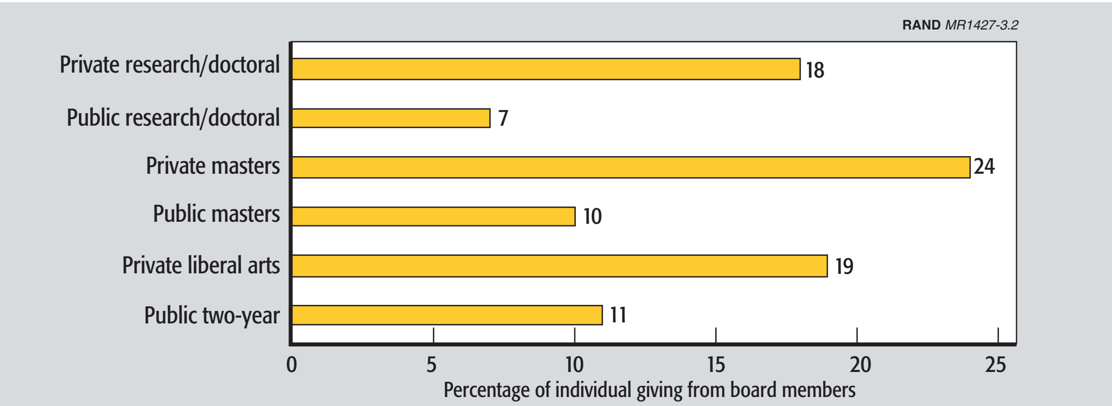
As the university's chief advocate and strategist, the president sets the theme, defines the mission, separates the school from its competitors, builds credibility for the school, and shows leadership. The president serves as the ultimate asker for big money, and time with the president can be used as a reward for high-dollar donors. The president must also translate the vision of the institution to the many constituencies of the university—the board of trustees, the faculty, and the development office.

Given the human limitations of time and energy, presidents simply cannot handle all the demands of a major fundraising program. Furthermore, many presidents are not themselves wealthy enough to give major gifts, and major gifts are often best solicited by major givers. Board members/trustees are in a distinctive position to assist with major donor relationships: They hold positions of trust and honor within the institution and are respected in their communities; they know people and move easily in their social and professional worlds; and their external ties and relationships are often at high social and economic levels and can be beneficially exercised for the support of the institution. Board members are personally responsible for a substantial proportion of individual giving to higher education (see Figure 3.2), and thus many are in the unique position of being able to ask others to follow their lead and join them in supporting the institution. Asking others to do what the solicitor has already done can be one of the most persuasive arguments on an institution's behalf—peers are the best people to ask peers for large gifts.

Development Officers

You can think of an institution's development officers in several ways: as dealmakers—connecting your money with a cause; as relationship builders—connecting people with people; or as salespeople—selling the institution to meet their quotas. First and foremost, development officers are professional fundraisers. Many obtain professional certification and are members of the Association of Fundraising Professionals (AFP), whose mission is to advance philanthropy and the fundraising profession (see *www.afpnet.org* and Table 3.1 for an overview of the AFP's professional guidelines). Although development officers should not work on commission, many have clear numerical targets or goals that

Figure 3.2 Board members provide a substantial portion of individual giving to higher education



SOURCE: Council for Aid to Education, 2000a.

Table 3.1 Guidelines for fundraising professionals

The Development Officer and AFP Member Should:
Seek to honestly fulfill the intent of the donor.
Put their philanthropic mission above personal gain.
Disclose all potential and actual conflicts of interest.
Not exploit any relationship with a donor, prospect, volunteer, or employee.
Make sure donors receive informed, accurate, and ethical advice about the value and tax implications of potential gifts.
Provide timely reports on the use and management of funds.
Obtain explicit consent by the donor before altering the conditions of a gift.
Not disclose privileged or confidential information to unauthorized parties.
Adhere to the principle that all donor and prospect information created by, or on behalf of, an organization is the property of that organization and shall not be transferred or utilized except on behalf of that organization.
Give donors the opportunity to have their names removed from lists that are sold to, rented to, or exchanged with other organizations.
Not accept compensation that is based on a percentage of charitable contributions; nor shall they accept finder's fees.
May accept performance-based compensation, such as bonuses, provided such bonuses are in accord with prevailing practices within the members' own organizations and are not based on a percentage of charitable contributions.

SOURCE: www.afpnet.org.

figure prominently in their employee performance evaluations, and they can and do accept performance based compensation, such as bonuses. The profession as a whole is highly competitive, and there is frequent turnover of development staff. You should not be surprised or dismayed to see different people at one institution over any extended period of time.

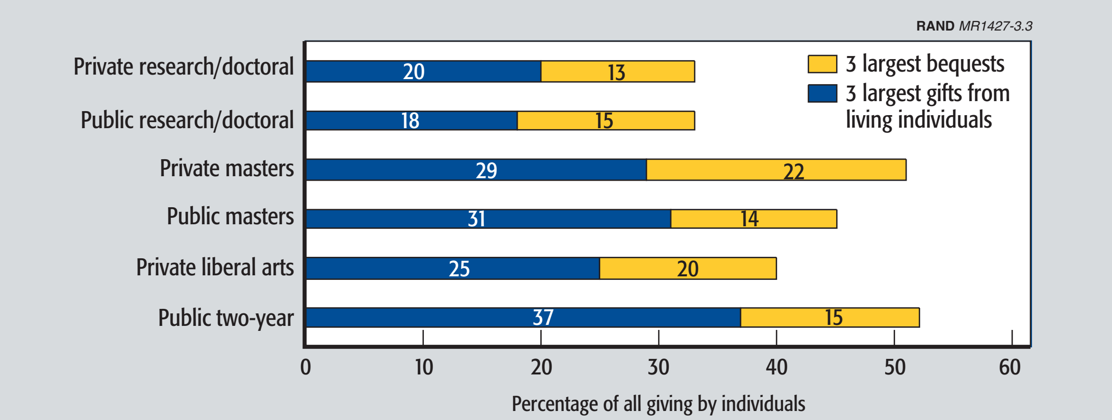
There is a clear distinction between development officers and faculty. In particular, development officers generally do not teach, conduct research, or participate in the governance of the institution. Indeed, consistent with Riegle (1985), we found that almost none of the development officers we interviewed had ever been a full-time faculty member. This is perhaps for the best since many faculty are woefully ignorant about fundraising and can feel ambivalent about donors (Riegle, 1985).

Typically outgoing, likeable people, development officers are trained to listen to your concerns and answer any questions you may have about the college or the giving process. Their job is to help you make decisions about what kind of gift you want to give to their institution and to negotiate an agreement with the institution that serves both parties' interests. Ultimately, however, the development officer works for the institution, not for you. In this they are akin to real estate agents (although they do not usually work on commission) who, unless you have an explicit buyer's contract, are truly agents of the seller. They are unlike your personal attorney, tax accountant, or doctor who has an explicit professional obligation to serve your interests.

Nevertheless, every development officer with whom we spoke could cite at least one instance of having discouraged a donor from making a gift as evidence that they really do work in your interests. Some have even turned down quite large gifts (as large as $100 million). Recognize, however, that development officers have a strong interest in not having a donor speak negatively about the school among their friends. These are major financial decisions so reputation (positive and negative) will carry.

Some development officers may care very deeply about their donors, but not all do, and it may be very difficult for you to distinguish the former from the latter—professional credentials notwithstanding. If for any reason you are not comfortable with the development officer you are working with, you should feel free to request assignment to a different development officer. It may also be useful to ask the school for its organizational chart so that you can see how the school's advancement operation is set up, how it relates to other departments within the university, and what the relevant reporting relationships are.

Figure 3.3 A few gifts account for a large share of all giving



SOURCE: Council for Aid to Education, 2000a.

Table 3.2 The giving pyramid: traditional and contemporary

Average Gift Amount	Number of Gifts	Total Giving at This Level	Cumulative Total	Percentage of Goal
Traditional Rule-of-Thirds Table				
$1,000,00	3	**$3,000,000**	$3,000,000	19.6%
$300,000	7	**$2,100,000**	$5,100,000	33.3%
$100,000	30	**$3,000,000**	$8,100,000	52.9%
$35,000	60	**$2,100,000**	$10,200,000	66.7%
$10,000	250	**$2,500,000**	$12,700,000	83.0%
$5,000	400	**$2,000,000**	$14,700,000	96.1%
$1,000	600	**$600,000**	$15,300,000	100.0%
Contemporary Table of Gifts				
$2,000,000	3	**$6,000,000**	$6,000,000	39.2%
$500,000	7	**$3,500,000**	$9,500,000	62.1%
$150,000	20	**$3,000,000**	$12,500,000	81.7%
$50,000	30	**$1,500,000**	$14,000,000	91.5%
$25,000	40	**$1,000,000**	$15,000,000	98.0%
$5,000	60	**$300,000**	$15,300,000	100.0%

Major Gift Fundraising

Major gift fundraising is the single most important component of any college's development strategy. In contrast to, say, the Salvation Army, in higher education fundraising, a few gifts account for a large share of all giving by individuals (see Figure 3.3). This concept was traditionally expressed as the "rule of thirds," which says that, typically, a campaign raises about one-third of the money from the top ten gifts, another third from the next 100 largest gifts, and all other gifts account for the last third. We illustrate this concept with a hypothetical representative "giving pyramid" for a roughly $15 million major gift campaign (see Table 3.2). The traditional rule of thirds is increasingly outdated, since in recent times the few largest gifts account for an even larger share of all giving. The top ten gifts might now exceed one-half of the campaign goal, the next fifty bring the total to 90 percent, and the goal is reached with the next hundred or so gifts after that. This view is so focused on the larger gifts that, in effect, the lowest rung of the giving pyramid is omitted as of relatively little consequence to meeting this campaign's goal (although today's smaller givers may be the major givers to the next campaign). This "contemporary" vision of the rule of thirds is also illustrated in Table 3.2.

Development is predicated on relationship building since "people give to people, not institutions," but that personal aspect should not obscure the fact that development efforts are designed to support an institution. Every donor should know that securing a major gift is the natural and hoped for result of the institution's cultivation process. Also understand that the major gift is much more than simply money contributed to meet an institution's needs. It is an opportunity for you to invest material assets for a range of intangible rewards. We describe these opportunities in greater detail in Chapter Four. What follows is a brief overview of the primary steps in the major gift process: prospect identification and research, cultivation, solicitation, and stewardship.

Prospect Identification and Research

The first step in the major gift fundraising process is prospect identification and research. Using public sources of information, research staff members will identify those individuals who have the capacity and inclination to give a major gift. Giving capacity is assessed on the basis of both financial and personal information. Financial items of interest include salary, bonuses, stock investments, business and corporate investments, retirement benefits, real estate investments, inheritances, and liability factors. Your relationship with the institution will also be carefully reviewed. For example, to what programs/departments have you made gifts in the past? What was the amount of those gifts? Have other family members of yours attended or been involved with the institution? The questions may be even more personal. For example, have any of your family members died of a particular disease (they might ask you to fund research on that), and do you hold any particular ideological views? At some institutions, this information is run through a "giving formula" (a system based on past performance or other criteria for determining the level at which a person might be expected to contribute to a campaign) and summarized on a profile card.

Typically a school's development office will have more information about you than you would expect and may have predetermined your capacity and motivation for giving. The Internet and numerous readily accessible online databases have turned what was once a burdensome, time-consuming research process into one that can be accomplished with relative ease. In some respects, these Internet searches reflect the increased professionalism of development, enabling the development officer to identify your interests more quickly and not waste your time on giving opportunities that would be of little or no interest. But just because the school has a lot of information about you does not mean all that information is correct. Their database might say you love the arts because you gave $5,000 to the symphony, something you may have done as a favor to your best friend who is on the symphony board even though you never attend. You should take care not to reveal any personal information to a development or institutional officer that you do not want to have entered into a database. Indeed some donors prefer to give anonymously for personal privacy reasons.

Cultivation—Making Friends

Once it has been determined that a prospect has the capacity and inclination to give, cultivation proper begins. Cultivation is the process of forging a relationship between you, the major prospective donor, and the institution. Major gift officers will pay visits to your home to explain the funding needs of the institution and ask your opinions on specific projects. Using information gathered from prospect research, they will frame giving opportunities in a way that fits your desires, beliefs, and convictions. Development officers expect the cultivation of a major gift to take between one to three years, although one donor we interviewed described a major gift decision that took less than an hour. Often, development officers will draft guidelines for major gifts that list substantive giving options, preferences of the college, and special procedures for giving. You should of course feel free to ask for these guidelines.

Solicitation—The Ask

As the cultivation process moves toward the final solicitation, the institutional representatives will give considerable thought as to the timing of the ask, who should be present in the room when the ask is made, and indeed what room is best for the ask (e.g., the donor's office or a private club). Factors considered with respect to the timing of the ask include length of the cultivation period, date of the prospect's last major gift, the donor's age and health, his or her current economic position, and the urgency of the project for which the funds are sought. The ask will be for something in which the prospect showed interest during the cultivation stage. Prior to the ask, those involved may participate in role-playing exercises to practice the role of solicitor.

Senior development staff, trustees, and administrative officers, such as the president and deans, or a volunteer who has given a similar gift are often involved in solicitations. Most major gift requests are made not by development staff but rather by, or at least in the presence of, another major donor who has already made a similar commitment, either in absolute size or in propor-

> We feel the people who know us well are likely to be the most supportive.
>
> —Linda Weimer, Assistant Vice Chancellor for Public Affairs, University of California Berkeley, in *Currents*, 1996.

tion to the donor's ability to give. Several meetings may be required and should be expected during the solicitation process. After the negotiation phase is over, the development officer will draft a "gift agreement" between you and the college that details exactly how your gift will be used. Be sure to have your attorney and/or financial advisor review the gift agreement before signing it.

Some development officers with whom we spoke said that they discourage donors from having an attorney present during the negotiation process for a major gift. They contend that giving is an emotional experience for the donor, and therefore it is awkward for the donor to be placed in the middle of his or her legal advisors and the college. Others said they would give exactly the opposite advice. It is obviously your decision whether to include your attorney in these discussions, but you should recognize this as an important decision and make it explicitly. The other party to this negotiation will choose the timing and terrain of the final negotiation. You may likewise want to give some thought to parallel issues, such as deciding whether to have counsel present, to have or not have a spouse present, to resolve beforehand not to say yes or no on the spot, etc. When we asked "what advice would you give a hypothetical friend or relative considering a major gift," several development officers recommended *always* having counsel in the room when development officers are present.

> University people sure are a lot friendlier than they used to be. . . . The richer I get, the friendlier they get.
>
> —Anonymous donor, quoted in Riegle, 1985

Stewardship—A Long-Term Partnership

After a donor makes or pledges a major gift, there typically ensues a long and delightful period of recognition and gratitude. This post-gift attention is part of an overall effort at donor relationship maintenance, or "stewardship." Development officers will be in regular written contact with you, sending early news releases of certain information about the school, or newsletters written by the president, and updating you on how your gift is benefiting the institution. Personal notes and pictures of you and/or your family members at school events will be included in this communication. You will be invited to special fundraising events that honor the project you have funded, and you will enjoy public expressions of appreciation such as being on an "honor roll of donors" whose membership is published in annual or quarterly reports (unless, of course, you have requested anonymity). Your name may be placed on a wall or special plaque in the campus community. Representatives of the institution may even continue to visit your home and attend special family events, such as the wedding of your child.

All of this attention is in no small part a genuine expression of appreciation, but it is also strategic. As one development professional explained, "Every gift we get is a down payment." Indeed, the best prospect for an institution is a past donor, so it only makes good sense to thank you in an appropriate and timely manner. For particularly large gifts, the institution will also seek media coverage. Publicizing your generosity may help to set a standard for others to follow.

In sum, colleges and universities typically encourage a behavior pattern that moves donors from one level to the next in terms of the size of their gifts and the extent of their involvement in and commitment to the institution. This pattern is a sort of stepwise progression, through which the institution tries to build a stronger and more productive relationship with the donor until a major gift is made. It is our hope that by revealing the subtleties and complexities of this process of relationship building and social exchange, you will be better able to appreciate, master, and enjoy the important act of major gift giving.

4 The What, How, and When of Giving

One of the basic choices donors to higher education face is what specifically to fund. This question can be difficult to answer not because it is hard to find something to fund, but rather because there are so many interesting opportunities. Indeed, it can be more difficult to think of things one cannot fund than things one can. Likewise, in terms of how and when to give funds, anything is possible. We offer below an organized sampling of the possibilities you might want to consider.

What to Fund?

The three most common funding opportunities in higher education are (1) buildings or portions of buildings (e.g., classrooms, labs, lobbies, and benches), (2) endowed chairs, and (3) endowed scholarships. Scholarships are smaller gifts than chairs, which in turn are smaller than buildings. There will always be a percentage of donors who are most interested in giving money for buildings. Likewise there will always be funders who appear more interested in people (i.e., funding scholarships and chairs) than bricks and mortar. There are also many other funding options in addition to these big three, including gifts to support special schools or programs, gifts to advance your personal interests or concerns, unrestricted gifts, gifts of tangible personal property, and the gift of time. Each of these options is described in turn below.

Buildings

When making the lead gift for a building that is an administration priority, donors are not typically expected to fund the full cost of the building. There are no pat formulas, but at a private university, the lead donor or a governing board of trustees (regents) might typically cover 50 percent of the construction cost of the building with the other 50 percent provided by a larger number of other donors. At a public university, the lead and matching donors may each cover one-third of the cost, with the remaining third coming from state funds and other private gifts. Schools rarely expect donors to pay for the ongoing operations and maintenance costs of buildings, particularly if they create an ongoing revenue stream (e.g., a residence hall).

The exception would be if you suggest a building that the school does not think it needs or wants and which does not generate revenue (e.g., a chapel at an institution for which having a chapel is not a priority). Indeed, in these circumstances a school might even decline a building whose capital costs were fully paid if space on campus were scarce and/or the operating and maintenance costs of the new building would create a financial burden.

Remember, too, that even buildings don't last forever. If you give to have a building (or a room within it) named after you, that naming recognition may or may not persist after the building is torn down. Although universities will rarely give you naming rights to the "location," they may continue to recognize your contribution by including your name on whatever building is subsequently built there or on a portion of it. Of course, they will have to look for a new donor to support that construction.

Chairs

What endowing a chair actually accomplishes can vary widely across schools. At one extreme, the revenues from the endowed funds are used almost exclusively to pay the chair holder's salary, with a modest amount (a few thousand dollars) available to the chair holder for research-related expenses (travel to conferences or purchase of books, data sets, computers, etc.). From the chair holder's perspective, such chairs carry great honor but little real consequence since the chair holder's salary would otherwise have been paid with other funds. At the other extreme, all of the revenues from the endowed funds are available to the chair holder and, hence, are substantial enough to pay for graduate students' stipends, the hiring of research assistants or programmers, and other types of research support.

For the sake of equity among faculty, most schools try to set up all chairs they receive on roughly comparable terms. For example, a school may prefer not to create a new chair that would be of substantially greater benefit to its holder if the existing chairs primarily pay only salary. However, if your desire is to empower the holder by including supplemental research funds, you can try to negotiate that with the school.

It is commonly presumed that a faculty member holds a chair for his or her professional life, but as a donor you can set other terms. For example, "career development chairs" may be endowed to be held on a rotating basis (perhaps three to five years) with the explicit intention of helping untenured junior researchers establish their careers. An uncommon but not necessarily unproductive variant is a temporary chair for more senior faculty that relieves the holder of teaching responsibility for a specified period of time so that he or she can begin working in a new area. (This would be akin to providing funding for sabbaticals at a school that does not normally provide them.) Other schools have teaching chairs, the interest income from which is used for faculty development, not salary, and these funds are rotated annually across deserving faculty.

It is best to avoid endowing either too broadly or too narrowly. If you make an endowment too broad, the funds are effectively unrestricted. But if you make it too narrow, the chair may be difficult to fill or the gift may cease to be important in later years. (Consider what would have happened if a 19th century railroad baron endowed a chair for the study of innovative steam locomotive designs.) A happy compromise may be to write the designation in "layers": "The first preference is for X. If that is not possible, then Y. If that is not possible, then Z." Another variant would be to say, "For the first 20 years, use it for X. If that continues to be viable after 20 years, keep that focus. If not, relax the focus to Y or to Z."

Finally, it is important to remember that higher education institutions do not move quickly. Endowed chairs can easily take a year, sometimes longer, to fill. The more narrowly the chair is written, the longer the (worldwide) search process can be expected to take.

Scholarships

Choices concerning scholarships must address the issue of who gets how much funding and under what conditions. Let's begin with the simpler issues first. You can specify that preference be given to students from a particular geographic region, an underrepresented ethnic group or nationality, or even a family business (e.g., a scholarship for children of steelworkers). Scholarships can be restricted by intended major (e.g., for engineering students) or even extracurricular activity (e.g., for outstanding students who play in the marching band). You can choose the extent to which the award is based on merit or need. You can make the scholarship for the first year or all four.

Decisions regarding amount can be more subtle. You can give a large number of relatively smaller scholarships, or a smaller number of larger or even full scholarships. In the former case, the funds typically are incorporated into the student's overall need-based aid package, such that the scholarship may effectively become an unrestricted gift. In the latter, the scholarship may actually increase the total amount of aid the student receives by exceeding what other sources would provide. In these cases, if the school does not shift away its own money to hold the student aid package constant, the student's need might be reduced enough so some of his or her state and federal need-based financial aid will be lost. The irony here is that even though many donors may be giving money to the school in no small part to avoid giving it to the government, a portion of your gift might actually end up paying a sort of tax in the end.

Gift to a Special School or Program

It is also common to designate a gift as being for a school within a university or even a department or program within a school, but not specify what that school or department must do with the money. Typically medical schools, business schools, and law schools receive the most such gifts, schools of education and divinity much less so. At some schools, gifts for athletics in one form or another are very common. In many instances, the athletics program in effect runs its own development efforts, sometimes well coordinated with those of the central administration, sometimes not.

Because the great bulk (80 to 90 percent) of gifts are restricted in some fashion, and many restricted gifts demand some institutional matching funds, the skew toward giving to professional schools not only shrinks the faculty of arts and sciences as a proportion of all campus activities, but might even shrink their resources outright if the internal match comes from a scarce pot of funds. Indeed, if you offer $1 million toward a program that will cost $4 million to create, the school will most likely reject your gift rather than spend its own funds to make up the $3 million difference, unless creating that program is already a priority for the school.

Other Creative Options

There are many more options for those of you with particular personal interests.

Some creative ones we have heard about include the following:

- An annual award endowment for teaching excellence as a way of promoting quality of education. (A good source of insight into other creative points of leverage, particularly with respect to undergraduate education at research universities, is the Boyer Report (1998).

- Funds for residential learning communities, to enhance the out-of-class learning experience.
- Money to pay travel costs for women's sports teams so they can attend tournaments farther from home (including overseas) and travel in greater comfort, as some men's teams can already afford to do because their ticket revenues may be higher.
- Funding for cooking equipment so college cafeterias could make ethnic food from parts of the world that the donor thinks (a) all students ought to know about and (b) the school ought to be more hospitable toward.
- Funding for journals that the library would not otherwise have.
- Subsidies for study abroad programs or student trips to Third World countries so that they can work there over a break.
- Salary supplements or loan forgiveness to students who take government rather than (higher paying) private-sector jobs.
- Free or subsidized symphony tickets to students.
- Funds for a speaker's program that brings high visibility (i.e., expensive) speakers on campus.
- Funds for campus beautification, such as a sculpture garden or flowers, especially for public schools that cannot use state funds to support such amenities.

Unrestricted Gifts

Another important option for major donors is to give unrestricted funds. If you believe in the institution, its mission, and its cause, then the best gifts are unrestricted gifts.

Three points about unrestricted funds will be of interest. First, flexible funds are relatively rare. As discussed previously, institutions have great difficulty reallocating resources from one department, purpose, or activity to another (Benjamin et al., 1993). Or, looked at another way, it is very difficult to do less of something than was done the previous year. That implies that in times of no or low growth, almost the entire university budget is spoken for before there is a chance to contemplate new initiatives. Voluntary donations in general and flexible funds in particular have special value as enablers of new initiatives or strategic directions.

A second related issue is that heads of institutions do not have the level of direct authority over academic—as opposed to "business"—issues at their organizations that is customary in, for example, private industry. For better and for worse, higher education institutions are bureaucracies, and the culture of academic freedom and the institution of tenure compound the difficulty of exercising decisive leadership from the top. So university heads lead by offering incentives when they cannot succeed through moral suasion or consensus. (Direct commands are rarely productive or, in some cases, even viable.) Financial incentives are among the most salient, and control over development efforts can be a valuable source of power to institutional leaders, particularly when those efforts yield flexible funds. If you believe central administrations should be empowered (e.g., because you believe decisive leadership is essential in stressful times), then you might consider giving funds that can be used at the discretion of the central administration. If you admire the work of faculty and view central administrations as necessary evils, you will probably prefer restricted gifts.

Third and last, we offer a reality check concerning how a substantial share of unrestricted gift funds are used. Just as one "has to spend money to make money," institutions "have to spend money to receive money" or at least receive more money. Development efforts can consume 3 to 25 percent of the dollars they generate for an institution (see Hedgepeth, 2000; Yoo and Harrison, 1989; and Pocock, 1989). Since only about 10–20 percent of funds are unrestricted and few donors restrict their donations for development purposes, unrestricted giving goes in no small way to offset the school's development expenses.

This is not necessarily bad. In some sense, one can think of this as generating matching funds—giving $100,000 so a school can hire an additional development officer might in turn lead to $500,000 more in gifts from others than the school would otherwise have received. Even though your own funds may not directly support education, research, or public service, you could view this as efficient leveraging (although you would have no control over what in particular the subsequent $500,000 was used to fund). Finally, development efforts produce more than cash flow for the institution. They create social networks, instill pride in the alma mater, and promote interaction among members of the campus community and experienced, successful individuals in the outside world.

Gifts of Tangible Personal Property

Not all gifts are financial. Some of you may wish to give physical objects such as collections or real estate. Often the institution will seek to sell these physical objects to convert the gift into money since the money can then be applied to the institution's higher priority. If that is fine with you, then there is little more that needs to be said except to recognize that the school will want to do due diligence with respect to the nature of the object (e.g., verifying that a donated commercial site does not have any hidden hazardous wastes that would become the school's responsibility).

If, on the other hand, you intend for the university to keep and make use of the physical objects, then some additional points are in order. First, you need to recognize that accepting physical gifts can be expensive. If the collection requires a climate controlled room, curator, and periodic maintenance, then paradoxically the school may not be able to afford to accept the gift. In such cases, you may wish to consider giving a supplemental cash gift to cover such expenses. If you want to give a collection that needs to be housed and the physical campus is space constrained, the school may not accept. In effect, the cost of building a building is not just the capital construction cost and ongoing operating cost, but also the opportunity cost of not using that space to build a different building.

Second, sometimes money is not the only barrier to good stewardship of precious objects. Elevating the cultural experience of students by furnishing their dorm rooms with antiques sounds wonderful, but young people learning how to behave without parental supervision are not always gentle with other's objects (including the school's), and the institution may simply not want the responsibility of trying to so closely monitor students' behavior outside the classroom as to protect such fragile objects.

Third, the value to the institution depends not only on the intrinsic value of the objects but also on their consistency with the school's mission and vision. An extremely rare and valuable collection of 17th century Dutch tapestries may be worth a great deal in an objective sense, but still not be of enormous value to a school that doesn't have an art history or textile engineering program. In contrast, a donation of original manuscripts to a school with a strong history program can be a treasure that meaningfully improves students' educational experience.

The Gift of Time

Many donors also get involved donating their time and energy, particularly by helping to raise money from other donors. One important type of involvement is as a trustee. It is not the case that giving a certain amount of money allows you to "buy" your way onto the board of trustees. Criteria include involvement, particularly over an extended period (e.g., in alumni committees), a history of giving, and having a relationship built through meetings with development officers and important officials. These criteria are intended to ensure that the candidate will not become deadwood on the board. Trustees are expected to give enormous amounts of time, talent, and treasure, so people who join boards just for prestige, business connections, and the like are usually not happy. Serving on a board is a philanthropic act, not a selfish one. But our premise is that you want to be philanthropic, so for potential donors who want a decisionmaking role, this is an important giving option to consider. In fact, you will have more control over your gift if you join the board, and that can also increase the psychic reward. One tip: Do not ask to be on a board but instead signal the willingness to be asked. The Association of Governing Boards of Universities and Colleges *(www.agb.org)* is an excellent source of information about the roles and responsibilities of board membership. Its *raison d'etre* is providing programs and services to trustees, regents, and chief executives from these institutions.

Funding Programs in the Present or in Perpetuity?

Regardless of what object or activity you decide to fund, gifts are most commonly for current activities (the entire gift is spent this year or perhaps in the next few years) or in perpetuity (e.g., by endowing the object or activity). An endowment is a permanently restricted net asset, the principal of which is protected and the income from which may be spent and is controlled by either the donor's restrictions or the organization's governing board. There are also quasi-endowments from which the funds, both principal and interest, may be expended at the discretion of the governing board. As a rough rule of thumb, it costs 20 times as much to endow something in perpetuity as it does to pay for that same thing for one year because the usual draw on endowed funds is 5 percent annually. Intermediate options, such as funding something for 10 years, although less common may be appealing to some donors.

There is a moderately energetic debate about whether donors should fund something in perpetuity, and that debate is not confined to philanthropy for higher education (see, for example, Wooster, 1998). Nor is it a new idea that a gift should be spent in a finite period rather than endowed (Rosenwald, 1929). A principal concern is that as time goes on, the revenue from the gift may start to be used for purposes other than, or in extreme cases even contrary to, the donor's intended purpose. A well-known example was Henry Ford II resigning from the board of the Ford Foundation out of concern that the foundation had strayed from the original donor's intent. For more information on the very important issue of preserving the integrity of the donor's intent, see Bork and Nielsen (1993) and Rhoads (1997).

A second principal concern is that the object or activity funded loses its relevance over time. What happens, for example, to a scholarship for basketball players if the school closes its basketball program? Typically it is shifted to a similar use, such as scholarships for student athletes more generally. Sometimes the new use is not dear to the donor. Sometimes the money is never reallocated and simply accumulates for a period of time because the legal costs of amending the endowment's use are prohibitive. Of more serious concern might be endowing a chaired professorship in a field that becomes an academic backwater because of breakthroughs in other areas. This can happen in any area, but of particular concern are business people who endow chairs to study the industry in which the donor made his or her fortune, and gifts restricted to certain narrow historical year-ranges for which new original information is unlikely to emerge, particularly when coupled with restrictions to study particular regions or nationalities.

There are, on the other hand, good reasons for school's preferring to fund things from an endowment: (1) An endowment is more than just a savings account. It generates operating funds on an ongoing basis. (2) It provides working capital for special projects, which is important since it is hard to raise funds in the market as a nonprofit. (3) It protects the school's ability to operate on a year-to-year basis without being threatened by the business cycle or, as one person we interviewed put it, "The school does not have to sell its soul to meet payroll during a recession."

Moreover, there are many things that cannot be funded on a year-to-year basis. For example, schools may not want to start a research center with a one-year gift because if the donor does not renew the gift, the school will be forced to subsidize the center's operation with scarce flexible funds or shut it down, both of which are painful. Also donors may be attracted specifically by the bit of immortality associated with endowing something in perpetuity.

When to Give—Now or Later?

Giving Now—Outright Gifts

Many donors choose to make outright gifts by writing a check, transferring securities, and so on. Such gifts are preferable for the school because they are irrevocable, immediate, and of known size. The principal advantages of outright gifts are the ability for you to see the impact of the gift during your lifetime and favorable tax treatment in two respects. First, you obtain an immediate deduction from income taxes, which does not occur with estate gifts. For most individual gifts to colleges and universities, federal law permits essentially a deduction of up to 50 percent of your contribution base (roughly equivalent to your adjusted gross income). Second, the cost basis upon which estate taxes are calculated is more favorable for gifts made while living than for bequests.

Giving Later—Planned Gifts

Many older donors, particularly those age seventy and up, tend to gravitate in the direction of planned giving. The most common form of planned giving is the bequest. With a bequest, you make provisions for a college in your will, designating a dollar amount, a percentage of the estate, or the residual of the estate after providing for others to go to the school. This form of giving may be free from federal estate tax and the inheritance and estate taxes of most states. A principal advantage of estate gifts from the donor's perspective is, of course, that you could use the funds during your lifetime in case of unforeseen circumstances such as extraordinary medical costs or simply living longer than expected.

From the school's perspective, it is hard to make plans based on planned gifts: Administrators don't know how long the donor will live (and, hence, when the gift will be received) or how much will be received (the donor might write the school out of the will and the dollar value of the gift is subject to the vagaries of financial markets, particularly if the gift takes the form of securities in specific companies). Many colleges will request that you inform them of your plans for a bequest so that the development staff can thank you personally rather than thank an executor. Bequests should always be drawn and executed with an attorney's advice. It is important to be very clear about your wishes in a will, because some bequests to colleges have been challenged by family members.

The bottom line on giving before or after death is donor preference. Some donors with whom we spoke are determined to give away every penny before they die. Others set up foundations that will start giving money away only after they have died so they will never have to worry about people asking them personally for money.

The Best of Both Worlds—Deferred Gifts

Deferred gifts are another type of planned giving. Together with bequests, they represent a substantial proportion of all individual giving (see Figure 4.1). The term deferred giving is somewhat misleading. It implies that a gift is deferred, which in fact it is not. Rather, such gifts enable you to retain the income from a major portion of assets, while ensuring that some or all of those assets will benefit the college of your choice in the future. In this way, you can make a more substantial commitment than might otherwise be possible without jeopardizing your own access to financial resources during your lifetime.

Remainder Interest

As the *2000 Case Guide to Advancing Education* describes (see Appendix A for information about this guide and the web site of the Council for Advancement and Support of Education), there are a number of techniques for deferred giving. One that can be quite productive is to give a "remainder interest" in property. In this case, the school receives an immediate gift of an interest in property, and you receive an immediate deduction. However, the school's enjoyment of the gift is deferred to a future date. For example, assume you have $250,000 of securities, but your anticipated financial needs require you to retain the income from the securities during your lifetime. Instead of making a bequest to a

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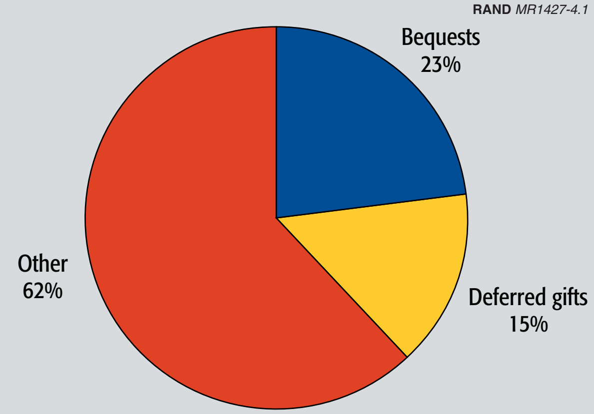

Types of individual giving

SOURCE: Council for Aid to Education, 2000a.

Figure 4.1 Together with bequests, deferred gifts represent a substantial portion of all individual giving school in your will, you make an immediate gift of the remainder interest in the securities in trust and retain the income interest for life. Upon your death, the school will receive a full interest in the securities, which may then be worth more or less than their value on the date of the gift. In essence what you have done is split your property into two parts, a life income interest and a remainder interest each of which has a value on the date of the gift. This splitting is why deferred gifts are sometimes referred to as "split interest gifts."

Charitable Lead Trust and Charitable Gift Annuity

Other planned gifts that may be of interest are the charitable lead trust and the charitable gift annuity. A charitable lead trust is a less frequently used form of charitable giving but preferred by many institutions that are able to secure them. In essence, it is the reverse of deferred giving—it is the gift you get back. In a charitable lead trust, you transfer property into a trust creating an income interest dedicated to an institution for a period of years (i.e., 5 percent of $1 million for 20 years equals $50,000 per year to the institution). Either you retain the remainder interest or it is given to another family member (see the *2000 Case Guide*).

With a charitable gift annuity, you can generate charitable income tax deductions now, supplement retirement income later, and benefit a university now. In this case, you make an irrevocable transfer of cash or property such as securities. The school agrees in a contract to pay you or other beneficiaries a guaranteed annuity for life. Because the property transferred has a value larger than the value of the annuity, the transaction is in part the purchase of an annuity and in part charitable contribution. The annuity may be immediate or deferred. In either instance with respect to the charitable contribution portion, you are entitled to a charitable deduction for the year in which the transfer is made (see the *2000 Case Guide*).

Failure to adhere to the precise governing rules for each type of gift can have dire consequences, including loss of the income tax charitable deductions and the estate and gift tax charitable deductions. Therefore it is always advisable to review the details with a legal and/or tax advisor. In general, the larger the amount of the gift, the more necessary it is to seek competent legal and tax advice, whether for lifetime gifts, to which the rules of both income tax and gift tax apply, or for testamentary gifts and the estate tax. You should also research the various rates of return for planned giving opportunities since these vary across schools. To find out more details on the planned giving options available at your college of choice, contact the school's development office, a financial advisor, and/or an attorney.

What You Can Buy—Recognition and Access, but Not Influence

One very reasonable question prospective donors may ask (or wish to ask but do not ask to be tactful) is, "What can I buy with a given amount of money?" The literal answer is, of course, nothing, because gifts are gifts, not purchases. But it is very reasonable to want to know how much recognition a gift of a particular size will bring, how much access will accompany it, and how much influence it will confer. Above all, you should have realistic expectations about the ultimate impact of your gift. Just by the nature of sales, you will often be oversold. Oftentimes your contribution will be just a small part of the total cost of a product, but the school will want to make it sound like you are getting a lot for your money. On the other hand, if you want your gift to be leveraged or matched, the school will show you a budget that highlights the matching funds.

Recognition

Some of you may value highly the recognition that comes with having something named after you. Others of you may happily accept that honor, but it is incidental. Indeed, the largest individual gift ever made to an institution of higher education was made anonymously ($360 million to Rensselaer Polytechnic Institute in March 2001). Still others of you may prefer to honor someone else, such as a favorite teacher when you were a student. Some lead-gift donors choose to honor those who provide the matching gifts (e.g., calling a building "alumni hall" in honor of the many small gifts from alumni that complement the lead donor's gift).

In any case, it may be of interest to know the relative ease with which you can get your (or someone else's) name on something. There is a black humor on some campuses that their school will sell naming rights to anything one can put a nameplate on—classrooms, alcoves, gardens, drinking fountains, score boards. Yard line markers at the stadium of one school go for $10,000 for the 10 yard line, $30,000 for the 30 yard line, etc. Basically schools tailor the price to what they think they can raise. Naming things carries little cost to them and can even bring some benefit by raising awareness among current students and faculty of the generosity and accomplishments of others.

Let's start at the top and work our way down.

- To get your name on a professional school, a gift of $10 million to $100 million may be required.
- The pricing of scholarships is fairly standard. It is common for scholarships to range from $2,000 up to the full amount of a school's tuition or even full tuition plus a stipend. (Stipends can help students with room and board, the cost of books, or various fees such as a student activity fee.) Endowing a scholarship basically costs 20 times the size of the scholarship.
- Pricing of chaired professorships is trickier. Common "face prices" range from $1 million at smaller and less affluent schools to $2–3 million at a typical research institution to upward of $5 million in some cases (e.g., when the professor comes with an expensive laboratory). Prices are higher in schools that use income from the chair to pay the chair holder's salary (the norm, particularly in private institutions) than when the income is simply made available to the holder to pay related research expenses. Although $2 million may sound like a lot for an endowed chair, that translates into just $100,000 per year of endowment draw, which is less than a senior professor's salary, particularly once overhead and fringe are included. (Just to get a sense of proportion, the annual budgets of even small research universities will be in the $500 million range.)

  Smaller schools struggling to endow their first few chairs may offer "discounts" in the sense of naming a chair for a donor who contributes less than the "face price." They are particularly likely to do this if the chair is so completely consistent with the school's mission that the school would have employed such a person anyhow and/or if the donor or person with whose name the chair is associated is someone that the school would have wanted to honor in any event. At the other extreme, professional schools at elite universities have no incentive to offer such "discounts." Indeed, at some, such a large proportion of the faculty hold endowed chairs that they can foresee running out of chair naming opportunities unless they expand their faculty.
- Funding a lecture or seminar series is generally much more accessible because the institution will often provide implicit in-kind matching contributions. For example, the donor

might need to cover only the cost of the speakers' travel and honoraria. Incremental administrative costs may be borne by the school or department, and there is often no "rent" charged to the seminar series for use of a lecture hall if the lectures are held on campus.

- Funding the development of a new course, concentration, or even major can offer similar "bargains." Most of the true cost is the time faculty invest developing the associated curricula, and that cost is paid "out of hide" in terms of increased workload for people already on the payroll, so it does not show up in budgets. If the school sees great value in the curriculum development to the point of wanting to do it anyhow, then quite modest gifts may be sufficient to trigger action. (On the other hand, you should recognize that courses, concentrations, and majors are dropped routinely if there is no student demand, and the creation of new curricula should be viewed as an experiment, not in any sense a promise to continue to offer that curriculum after demand and/or intellectual relevance wane.)
- Creating a new department or school is another matter altogether because it involves making new hires and, in most cases, being willing to grant some of the associated faculty lifetime tenure. Those are major commitments, so if the institution did not already plan to take the action anyhow (e.g., in response to marketplace demand for education in that area), quite substantial donations may be necessary to trigger such an action.
- Whether creating a new research center is more like a curriculum development or the creation of a new department depends on the specifics. Some research centers represent simple agglomerations of existing faculty, and their costs (to the school and donor) are not high. That need not imply that they are of modest value. For example, giving a research center director some flexible funds to build bridges between faculty in different departments or schools—even with something as simple as free food at seminars—can lead to important cross-fertilization of ideas. At the other extreme, research centers that require construction of new laboratories and hiring of new faculty are commitments more on a par with creating a new department.

Access

The second dimension of the "What can you get for your money?" question pertains to access. Large gifts to institutions can buy much more access and attention than they can buy control or influence. Any given school may have clear and consistent practices, but we find it extremely difficult to provide concrete guidance in general. For example, at some small schools all donors who give $750 or more a year receive at least a call from the president each year and usually a personal visit unless they live some distance away. At a medium-size research university, $25,000 a year may get you a visit from the provost, although often in a group setting. For even larger institutions, still larger gifts are necessary to obtain that level of access to the president or provost.

At small institutions, there are only a modest number of senior leaders with whom a donor can meet (president, provost, vice president of advancement). At larger institutions, there are many more deans, vice presidents, vice provosts, etc. To put these titles in context, deans (and even in some cases department heads of large institutions) oversee budgets, faculties, and student bodies larger than do presidents of some smaller institutions. And some schools, particularly professional schools, are on their own fiscal bottom, so a dean can be a chief executive, not just a middle manager, even though their purview typically would not include aspects of student life such as housing, athletics, etc. Furthermore, if your true interests are in a particular area, spending time with the person who oversees that function may be of greater value and relevance than spending time with the university president, whether that is a scholarship donor talking to the director of admissions or a donor to an athletic program spending time with the coach.

The easiest way to estimate one's rank with respect to annual fund gifts is to obtain a copy of the annual development report, which typically lists donors by giving level (e.g., all who gave $1,000–$4,999; all who gave $5,000–$9,999, and so on). For one-time large gifts, the best guidance can be obtained by combining information from the pyramid of giving with information about the total value of gifts the institution receives in a year. For most schools, the latter information can be obtained from the Council on Aid to Education's reports (available at *www.cae.org*). (Note that annual fund revenues are a minor share of total voluntary giving, so the CAE totals for individuals only modestly overestimate the total of major gifts.)

Influence

What about control and/or influence? Universities are very sensitive about intellectual freedom for research and teaching, and most school leaders will not accept gifts from donors expecting control over the result of their gifts. From the perspective of the college, it is never desirable to skew the fundamental mission and faculty of schools toward donor wishes. Nevertheless, the prospect of receiving large gifts can challenge an institution's commitment to its core values, particularly if the school is in financial distress. Even the nation's elite institutions have from time to time in the past stumbled in the face of temptation (Curti and Nash, 1965).

Here are a few examples of inappropriate restrictions that would lead to the rejection of a gift: (1) efforts to restrict a scholarship or professorship *from* people of a certain race or religion (as opposed to restricting them *to* an underrepresented group); (2) efforts to guide the research agenda of the professor whose chair you are endowing; (3) attempts to approve the associated professors or to review the curriculum of the class whose development you are funding. There are also some gray areas. For example, it may be okay for you to be on the search committee for your endowed chair, but you cannot have veto power. While it is less common to be on the search committee for replacements for the original holder, there is no reason you could not be. There is also nothing wrong with your reviewing the plans for a building that you will fund. The school may try to insist on its design, but that's more a matter of preference than academic freedom. Preference is negotiable; academic freedom is not.

It can also be problematic if you seek special personal privileges in exchange for a gift, whether it is admission for a nephew or seats at the 50-yard line of the football game. The IRS is very strict about things that have face value, and good seats at football games do. Be careful what favors you seek or you may jeopardize the tax deductibility of your gift.

In sum, donors to higher education face a range of giving options, each of which comes with its own benefits and costs. There is no absolutely right gift, or absolutely right way to give, or absolutely right time to give. Every donor, every school, and every funding opportunity is unique. With respect to the financial particulars, our best advice is to consult with a good financial advisor. With respect to overall giving strategies, take a look at our next chapter.

5 Selected Giving Strategies

In some sense, the most important questions donors need to address are not "who to give to?" (this school or that) or "how to give?" (that's an issue for financial planners), but rather "why?" What is most important to you and your family? What responsibilities do you feel to society? Does your family have a strong culture as it relates to philanthropy? If not, do you want to create one? To a certain extent, therefore, philanthropy will always remain a very personal exercise, based on inward soul searching, personal passion, and your capacity and inclination to realize your dreams.

On the other hand, higher education philanthropy can also be viewed very much as a formal social exchange between an institution and an individual or family, in which the power of each relative to the other will determine the outcome of the exchange. The power of the organization is determined by its level of financial need and competition from other colleges and institutions. Your power as a donor hinges not only on the size of your prospective gift, but also on your flexibility and strategic use of the information that is available to you. We offer below a simple typology of givers and associated giving strategies that may prove useful to a wide range of prospective major donors (see Table 5.1).

The first dimension of the giving typology indicates how committed you are a priori to a particular institution. At one

Table 5.1 A Typology of Giving and Giving Strategies

		I Focus on a Particular School	
		Committed to Helping One School	Not Concerned About School Per Se
II Focus on a Particular Topic	Flexible About Specific Activity Funded	**(A) Loyal Alum:** promote something from medium-long list of wishes to reality	**(B) Philanthropic Angel:** search for school that matches your interest and/or is deserving
	Committed to Funding a Specific Activity	**(C) Alum with an Agenda:** negotiate carefully with partner in joint venture	**(D) Social Entrepreneur:** shop and bargain for best deal

extreme are those of you who may only be interested in giving to one institution, typically your alma mater or, less commonly, the dominant school in your city or region. At the other extreme are those of you who have no prior preference for one school over another and are willing to shop broadly to find the partner institution that will help you achieve your goals. Intermediate cases include when a couple is willing to give to either (any) of the schools they have attended, but no others, or when parents are willing to give to any of the schools their children attend(ed).

The second dimension of the typology indicates how committed you are to funding a particular entity, activity, or topic. At one extreme are those of you with focused interests, for example you may be interested in funding only study or research in 20th century American theater or the creation of new fencing teams. It is important to note that when focused on a specific activity, there is a greater premium on information about prospective institutions so that you are better able to negotiate to a win-win situation. At the other extreme are those of you who want to support higher education but are willing to let the leaders of the institutions identify what their own funding priorities are.

The Loyal Alum

If you are a donor in category A, you have predetermined the school to which you want to give, and you do not have a specific agenda to impose on the school. As the Loyal Alum, your goal is simply to help the school, and you trust the school's leadership to identify what the school's needs or priorities are.

At any given time, the school's leaders will typically have a short- to medium-long list of wishes that are consistent with and important to the mission and vision of the school that they cannot pursue without donor support because of resource constraints. The leadership will actively seek funding for these priorities, vetting the range of ideas with prospective donors. Because potential major donors are usually well known by the school, the leaders focus discussions on projects they think you will resonate with, but they are happy to redirect the conversation to another project on the list if you appear to be more interested in it.

Your role as the Loyal Alum is basically to move a project from the wish list to reality, and the relationship between you and the school's leadership can be friendly and direct. Both you and the school have an incentive to let each other know what your true needs and desires are. There is little incentive or reason for gaming, strategic manipulation, or withholding information. Hence, you and the school can work together to talk through various alternatives. For example, should the gift be structured as a match to encourage others to give to this cause? Should the gift be outright, over time, a bequest, or some sort of trust?

A pitfall or complication that can arise in these cases can be a Loyal Alum's efforts to micromanage the design of the object of the funding. For example, if you want to fund a science building but insist that it be purple, whereas the rest of the campus buildings are a conservative red brick, friction can arise. The school may prefer a purple science building to no building, but the value of your gift to the school is substantially reduced.

The purple building example is intentionally absurd to make a point, but architectural issues pertaining to building design are not uncommon. It is certainly appropriate for you to review the plans of the building you are paying for, offer suggestions, and even have the resulting building reflect your personality or style in some fashion. But if the ultimate goal is to advance the school, you ought to defer to the administration to know what is good for the school.

Another parallel issue pertains to the character of the students. Some donors may have an outdated or idealized notion of what students value and how they behave, and as a result will want to support programs that are ill-suited to contemporary students' needs and lives. Likewise, donors may not always understand how faculty view their role. For example, someone might want to endow a chair in field X with the hopes of attracting the world's most respected scholar in the field. But if the chair comes with conditions that force the holder to do applied work, there may be a problem, because in most fields academic stature is determined by some internally defined notion of the quality of work, not from providing applied analysis as a sort of pro bono consultant in service to the community.

Our bottom line advice for donors in this category is: Develop a relationship with the school, participate in an open and frank dialogue, make a gift from the heart, and enjoy both the process and the result.

The Philanthropic Angel

The category B donor has neither an agenda nor a predetermined affiliation with a particular school. One might ask why someone without a strong attachment to either a specific school or to a particular cause would give money to higher education at all. Why not give to your church, a social service agency, or some other deserving organization? Indeed, many of you do. However, although the Philanthropic Angel is not as common as the Loyal Alum, some of you may find yourselves in this situation.

For example, some of you may be strong supporters of higher education in general even though you did not attend college. Or perhaps your alma mater no longer exists or has changed in ways that do not appeal to you. Some of you may have attended a very fine institution to which you have already amply given, or you may think your gift can make a bigger difference to a smaller or less well-off institution. Or you may have attended college in another country, and now want to give to higher education in the United States.

Whatever the reason, those of you who fit category B are in some sense in the most enviable position. You have choices because there are many institutions of higher education in the United States, and, as discussed above, they are not all peas in a pod. You do not need to get involved in complicated or tense negotiations with the leadership of the school because you are willing to give a relatively unrestricted or flexible gift. You will be greeted as Philanthropic Angels from above by the schools with whom you interact. A large gift from someone who is not an alumnus, particularly from someone with whom the school has not had some other longstanding relationship, is like winning the lottery. It is a surprise and a bonus and so will be greeted with particular delight.

Broadly speaking, donors in category B have two choices. One option is to search out some school and begin to develop a deep and personal relationship with that school, in effect transforming yourself into a category A donor. If you take this path, you may, by the time you make your large gift, no longer be agnostic about which institution should receive your largess. The second option is to maintain an arm's-length relationship, giving a large gift to a particular institution because it objectively matches some criteria not because you have any emotional attachment to the school. In either case, the first step is searching for a particular school or small number of schools from among the many thousands that exist that match your interests, preferences, or criteria.

The Carnegie Classification System can be a good starting point. Ask yourself these questions: Do you want to support a small school, a large university, or a school within a university (e.g., a law school or a school of forestry)? Do you have a preference between public and private institutions, or between schools with a strong religious affiliation and those without? Do you have a preference for supporting institutions within a particular state or region? Do you want to support schools known for their excellence in science, or engineering, or liberal arts? If you can articulate a set of criteria (e.g., nondenominational liberal arts colleges in the Midwest) that may narrow the list down to a manageable number, at which point you can gather information on each. Alternately, if you want to seek out a school with a particular philosophy or bent, you may simply begin by asking people who are generally familiar with the higher education sector.

Perhaps our main piece of advice for category B donors is to take your time searching. As described above, the higher education sector in the United States is remarkably diverse, and there is a reasonable chance that somewhere a school exists that fits your particular interests or philosophy.

The Alum with an Agenda

Donors in categories C and D share a common challenge. You want to fund something that may not be a top funding priority for the school. This is a problem because almost by definition the school will want to shift the donation toward something it wants funded and away from what you want to fund. Furthermore, the basic rule of charitable tax deductions is that donor-controlled funds are not tax deductible. So donors in this situation need to be more careful and more strategic.

The donor-institution relationship is by no means zero-sum. There are win-win agreements to be obtained. But in this situation your objectives and those of the institution diverge on more than simply the amount of the gift. (Presumably from a selfish perspective the institution would always prefer a larger gift to a smaller gift, but from your perspective there is a "right"-sized gift.) This divergence of values or objectives implies that your interaction with the institution should be thought of as a negotiation as much as a partnership.

The negotiation is complicated by the irrevocable character of a charitable donation. There is a marked shift in power at the point at which a gift is made. Until the gift is made, the donor is in the empowered position because you can make the gift or walk away from the negotiation. Once the gift has been made, however, you have limited means to respond to a perceived breach of faith and some of those means (e.g., protesting publicly about being deceived and mistreated) may hurt the institution you are trying to help and, hence, are best avoided by more careful actions up front. This shift in power and control is most marked when the gift is understood by all to be "the" gift or "the final" gift that you will make. As long as the prospect of a subsequent gift remains, the institution will have a strong incentive for keeping you happy.

For donors in category C (and category D as well), it is important to differentiate between two cases, depending on whether the school is already engaged in some of the activity you want to fund. When the school is not already engaged in the activity, the key issue is getting the school to want to start the activity and making sure the reality of the planned, but as of yet hypothetical, activity matches your visions. This can be a very tricky design issue. Challenges include the tension between not wanting to micromanage but wanting the new activity to be closely in line with your intent; concern that the activity could be just what you want but never really gets integrated into the rest of campus and sits on its own off to the side; concern that the administration will neglect this new activity that was imposed on it (e.g., not working as hard to find good directors and not giving it supplemental funds). If you fully endow the activity in order to make it independent of the school, the size of the activity will be restricted and it may not be well integrated. However, if you only partially fund the activity, you will still have to worry about subsequent neglect if it is not an administration priority.

> Fundraising is obviously trying to get some money to advance the purposes of the university, but it goes beyond that. There are people who give to universities and in a very real way benefit from the giving. So really what you're trying to do is to connect the needs of the university to the interests and the needs of potential donors, and when you do that, everybody wins.
>
> —University president, quoted in Cook, 1994.

In the second case, when the school is already partly engaged in the activity, the big challenge is making sure that your gift really increases the amount of that activity as opposed to simply replacing more-flexible funds that are then used elsewhere. This can make for a tricky negotiation. You will recall from our discussion in Chapter Four that there is a fine line between restricted giving and unrestricted funds when it comes to both endowed scholarships and endowed professorships. To elaborate, let's assume you are considering endowing a partial scholarship for female engineering students for the purpose of promoting the study of engineering by women. Suppose that the amount of the scholarship is $2,000 per year, and tuition is $10,000 per year. Consider a student who is eligible for the new scholarship and who would have received a $4,000 scholarship from the school regardless. Given the $2,000 scholarship from the donor, the school may decide to reduce its scholarship to $2,000. The student gets a total of $4,000 either way, and the donor's gift, although restricted, is effectively no different than an unrestricted gift.

Granted, you will have the satisfaction of being able to think of your money as going to a specific individual. Indeed, many schools will offer you the opportunity to meet the student, perhaps at an awards ceremony, and many meaningful friendships are created that way. This outcome is fine for all if your intent is basically to help the school by helping a specific student. However, if the purpose of your gift is to "change the world," in this case by increasing the number of females studying engineering, that purpose would be largely thwarted.

Something similar can happen when endowing a chaired professorship. It is not uncommon for a chaired professorship to be awarded to someone who was already on the faculty or who would have joined it regardless. The chair brings that person some prestige that might help the school to retain him or her, and often there are some modest supplemental discretionary funds that support the professor's research, but the majority of the income from the endowed chair may go to pay the professor's salary. In the absence of the chair, the school would have paid that salary with its core operating funds. With the gift, the chair funds cover the salary, freeing the school to use its operating funds for a different purpose. Effectively, endowing a chair in many cases has effects not greatly different than an endowment gift of comparable magnitude that is unrestricted.

Because of this inherent fungibility of money, you may want to be somewhat strategic in revealing your preferences and take pains to understand the institution's true objectives, especially when your objectives and the school's do not perfectly align. For example, you should try to get the school to describe its priorities and objectives before you reveal your own preferences. This will avoid the problem of the institution just saying what it knows you want to hear. (It will always be in the institution's interests to minimize the apparent differences between its objectives and yours, since this maximizes the probability that a gift will be made—assuming the differences are not so large that the institution does not want the gift at all.) This can be harder for category C donors because they have been in a long-term relationship with the institution.

The biggest difference between category C and D donors is the lesser bargaining power of donors in category C. Category D donors are effectively monopolists: Donors control their money and are free to walk away from any one institution and go to another. Game theory says this makes you very powerful in negotiations. At the other extreme, if you are absolutely determined to give your money to a specific school, then the school has the upper hand. Without the school, the donor is thwarted. Without the donor, the school misses out on the donation but typically has other donors to work with. You are least powerful if the donation is very important to you and there is a sense of urgency (ailing donor whose final life's ambition is to do something through a major gift to this particular school), and the donation is not particularly large from the school's perspective. Most schools do not need to rush to get a gift and would typically prefer $X million unrestricted next year to the same $X million restricted this year.

In negotiations, being unable to live without something the other party controls leaves one in a weak position. Our suggestions to category C donors include the following:

- Be flexible. Proceed for as long as possible with multiple parties. For example, even if you are determined to give to one institution, take advantage of the decentralized structure of universities to pursue ideas with different decisionmakers within that university [e.g., a dean or department head within one school versus those in another school and/or versus the central administration, or between an academic unit and a nonacademic part of the university, e.g., residential life or athletics, or research (endowing a chair) versus teaching or funding a study abroad program].
- Feign more flexibility than you have. Even if you have few options that will make you happy, don't let the other party in the negotiation know that.
- Consider dynamic or time-varying restrictions on the funding to achieve your desired goals without getting locked into something that might become a backwater in future years.
- For scholarships or endowed chairs, consider giving something other than money for tuition or salary to avoid your gift simply displacing other funds (e.g., money for scholarships to travel abroad or flexible research funds for a chair holder).

The Social Entrepreneur

Category D donors are more loyal to a vision, an activity, or a cause than to a particular institution, so they can "shop for and bargain with" institutions to cut the best deal in terms of achieving their objectives. Whereas donors in other categories typically want to help the institution, those of you in category D want to use the institution to achieve some other objective. Presumably the institution will be made better off by its interaction with you and accepting your gift. Otherwise the institution would walk away. But to the extent that your real goal is to advance a specific activity and not the school, you want to manage the negotiation in a way that maximizes what you get subject to the constraint that the school gets enough to play ball. Although some of you may find the concept distasteful, negotiation theory suggests that category D donors ought to try moving the negotiations forward with multiple institutions so they can be played off against each other. Indeed, because you are a monopolist with exclusive control over the resource in question (the gift), you ought to do very well in these negotiations.

Who might be in a position to adopt such a hard line? Three typical examples come to mind: (1) You want to do something for a city or region that has more than one institution of higher learning that could host the entity or activity you want to create (e.g., if you want to create an evening program to teach nonprofit management and there were multiple schools with management faculty in the area). (2) You want to promote education or instruction in a particular field but without regard to the institution (e.g., if you want to prompt a college to create a major in jazz studies but would be equally happy if the program were established at any number of colleges). (3) You want to create a research center in a particular area (e.g., if you lost a family member to a rare type of cancer, you might want to found a research center dedicated to studying that type of cancer but might be indifferent as to which of several medical schools hosted that center).

One possible outcome is that you will shop around and find a school for which your vision is already viewed as an internal priority. This will be a win-win situation for you and the school. A variant on this would be that you find a school that hadn't previously given much thought to your pet project but that genuinely embraces it as a new top priority. This is really rare, however, since school leaders are bright, creative, and thoughtful and don't often simply overlook their priorities.

More generally, to some degree you will be dealing with a school that is willing to execute your vision, but would prefer—if permitted—to modify the vision or shift those resources into some other (possibly related) area. A school's priorities are by definition what it would do if it had flexible funds, and by definition it would prefer to put $1 million to one of those purposes than $1 million to any other purpose, no matter how worthy. So the school is always going to have an incentive to shift in some way the impetus of the gift to another activity or, even better, to flexible sources. The determined donor has to work to prevent that. In many cases, the school has the upper hand.

Some of you in this category may want to become, in effect, a development officer for your particular mission, seeking gifts from other donors for your pet cause. If the subsequent donors are people with whom the institution has no contact or relations, the school will be fine with that. If you ask for contributions from others who the school was already targeting, the school may be displeased for at least two reasons. Your actions may have the effect of moving someone else's donation from the unrestricted to a restricted category. And you may run afoul of the larger development efforts, perhaps leading to uncoordinated double asks or asking for an amount less than the development professionals think the donor would have been prepared to give. However, for type D donors, those are the school's concerns, not yours.

Another strategy would be to spend a small amount of your money (say 10 percent) on multiple schools in order to increase the chance that your big gift (the remaining 90 percent) does what you want it to. Gifts of $1,000 annually are often sufficient to get private meetings with leaders of schools for whom $250,000 is a big gift. Suppose you court four schools with annual gifts of $1,000 for three years, then two schools with gifts of $5,000 for two years. That's $4 \times 3 \times \$1{,}000 + 2 \times 2 \times \$5{,}000 = \$32{,}000$, which is only about 13 percent of a $250,000 end gift. That may be a good investment in information gathering and shaping versus skipping that step and putting the full amount into a single gift.

Ultimately, the giving process that works best for you will depend on who you are and what you want. Specific advice on strategy will depend on your particular situation. Certainly every donor (and indeed every school) is unique, so there are limits to our ability to make general statements. Nevertheless, believing that each of you will fall into (at least) one of the four general categories described above, we hope that the strategies offered herein will enable you to think strategically, critically, and creatively about your gift to higher education.

6 Conclusion

Our goal in writing this book was to guide prospective major donors in giving more effectively to higher education. Although most major gifts are profoundly motivated by charitable intentions, the noble impulse to give to higher education can quickly generate complicated choices. Which school? Which program? Under what terms or conditions? Even very talented people who have enjoyed exceptionally successful careers in business and other fields can become disoriented by academe's idiosyncrasies. We hope that this book has provided some insight into the higher education sector, giving opportunities, the development process, and how to think about and get the most from your "negotiation" with the institution of your choice.

The Intelligent Donor's Coda

Your choice of the right gift and the strategy and style for negotiating it must ultimately reflect your purposes. As an intelligent donor, your first priority is to make sure you know what your goals are, both generally and with respect to higher education in particular. It may even be useful to put your goals down in writing.

The next thing to decide is how much time and effort you want to invest in making decisions concerning your gift. One can productively spend considerable time gathering information about giving opportunities and getting involved at an institution. If this activity is pleasurable and enhances the satisfaction you derive from making the gift, "indulge" yourself in thinking as carefully about how to give your money away as you did in earning it.

Specifically, we offer the following advice for moving forward:

- Commensurate with the time you can invest, get all the information you can.
    - Explore the higher education arena, literally. By all means, read, surf the web, and subscribe to the *Chronicle of Higher Education*, but also go visit the schools in which you are interested. Meet with and talk to faculty, administrators, and even students.

> The idea of volunteerism, of compassion, of caring, and of individual initiative is something that lies very close to the heart of the kind of society we are. It is one of our distinguishing qualities, an absolutely precious aspect of the American idea.
>
> –Waldemar Nielsen (The Philanthropy Roundtable, 1993)

- Understand how higher education philanthropy works for donors. Discuss your questions and concerns with your development officer and consult some of the resources listed in Appendix A. Also talk with other donors about their experiences, perhaps particularly if they have given to different institutions or in different ways than you expect to give.

- Get all the support/guidance you can.
  - Consult with your lawyer and/or accountant. Only they can professionally represent your financial interests.
  - Involve others you deem appropriate (spouse, children, other relatives, friends).
  - Consider hiring a consultant/advisor if your contemplated donation is of a magnitude to justify that.
- Take time to weigh alternatives for giving and play out different giving strategies. If you initially find yourself trying to decide from among three options, the best choice may well be an as of yet unarticulated fourth option.

For most donors, it makes sense to view giving as a process, not a one-time event. Once you've made your gift, continue to be an active steward of it. Expect a return on your investment appropriate to the level promised.

You Have an Opportunity to Make Your Gift Count

More people than ever have the capacity and inclination to make major gifts to institutions of higher education. From society's perspective, this is a wonderful development. There are few human endeavors more noble than the creation and dissemination of knowledge, and few more worthy of charitable subsidy since so many of the benefits accrue to society generally, not only to the paying customers.

In this era of reduced public support and intense competition among colleges and universities, intelligent giving has never been more needed. Such giving now not only provides a "margin of excellence" but also in many cases is essential to ensure the very survival of the institution. As we look to the future, individuals will continue to be the primary source of major gift support for higher education. With proper planning, your philanthropy can become an essential asset for the future well-being of one of our society's most important institutions.

APPENDIX A Additional Resources for Donors

Given the broad and perforce cursory view of higher education and higher education philanthropy offered here, we would be remiss not to leave you with some sense of the other resources available and how to find them. While this list is not comprehensive, it does offer some prominent examples of literature, educational programs, and Internet sites that may serve as valuable resources to donors as well as the professional development community.

Resources on Higher Education

There is a large literature on the higher education sector generally, too large, in fact, for us to give a comprehensive summary here. We would suggest that four subsets of this literature may be of particular interest. First, a historical overview of how schools have evolved over time can provide a useful "big picture" context. There are good general overviews, as well as descriptions of how particular types of institutions evolved. For example, Robert E. Gleeson, 1997, *The Rise of Graduate Management Education in American Universities 1908–1970*, Ph.D. Dissertation in History, Carnegie Mellon University, describes the historical evolution of schools of business.

Second, there are books that convey a sense of the culture and spirit of higher education. Different books resonate with different people, but the following are some personal favorites:

- *The University: An Owner's Manual* by Henry Rosovsky (W.W. Norton & Company, 1991)
- *How Colleges Work* by Robert Birnbaum (Jossey-Bass, 1988)
- *Resource Allocation in Higher Education* by William F. Massy, editor (University of Michigan, 1996)

Third, there are books that discuss future trends for the higher education sector, such as budget challenges, the impact of distance learning technologies, and emerging international competition. Some of particular interest include

- *Breaking the Social Contract: The Fiscal Crisis in California Higher Education* by Roger W. Benjamin and Stephen J. Carroll (RAND, 1998)

- "Impediments and Imperatives in Restructuring Higher Education" by Roger W. Benjamin and Stephen J. Carroll (*Educational Administrative Quarterly*, 1996)

Fourth, there are books that grapple with particular issues that may be of interest to the prospective donor.

- The Boyer Report (1998) gives an excellent treatment of undergraduate education within research universities.
- *Corporate and Foundation Support: Funding Strategies for the 21st Century* by the Council for Advancement and Support of Education (2000)

Resources for Prospective Donors

Regrettably very little has been written specifically to guide prospective donors regarding higher education. One conspicuous and controversial exception is Jerry Martin and Anne Neal's *The Intelligent Donor's Guide to College Giving*, published by the American Council of Trustees and Alumni, 1998. Martin and Neal's advice is particularly useful for those donors we refer to in Chapter Five as "category C and D" donors; those who have a clear agenda that diverges from the goals and aspirations of the institution to which they want to make a gift. What makes this book controversial is that it is written from the premise that most major donors have a somewhat conservative ideology and that postsecondary institutions will—unless monitored very carefully—subvert your intent and use the funds to advance intellectually weak or left-winged agendas.

Of a different ilk, the Council for Advancement and Support of Education offers a web site *(http://hermes.case.org/00guide/)* in conjunction with the annual printed publication *(2000 CASE Guide to Advancing Education: Giving Opportunities at Colleges, Universities, and Independent Schools)* that is intended to be a comprehensive guide to key information about making gifts to various U.S. educational institutions. It can be searched by keyword to identify institutions that may be of interest to donors.

While resources for philanthropists interested in higher education in particular are scare, there is a burgeoning sector of activity that provides information and other services to enable donors generally to decide whether and how much to give, how to find the "right" recipient organization for their generosity, and more generally how to think about the meaning and responsibilities of wealth. See, for example, *Wealth in Families* by Charles

Collier (Harvard University Press, 2001). Collier provides guidance on how to think of philanthropy as something to be engaged in by a family, not just an individual. Other useful insights for donors will be those offered by other donors, including the original great philanthropists such as Andrew Carnegie (*Gospel of Wealth*, Applewood Books, 1998).

In addition, there are programs that seek to educate "the whole philanthropist," and to give general tools and skills necessary to engage in effective philanthropy across a broad range of areas and endeavors. Some individual foundations provide donor education programs, but these programs tend to focus on areas of particular interest to the foundation, which obviously will not match with the interests of all donors. And this being the age of consultancy, there is also no lack of individuals and organizations that can help you decide how best to give your money away (see Allen, 2000). Some examples of donor education programs and resources that have gained national attention include the following:

- The Kellogg Foundation (2000) describes 25 web sites offering philanthropy and donor services.
- The Philanthropic Initiative *(www.tpi.org)* offers consulting services to assist donors (both individuals and families) in achieving their philanthropic goals. TPI takes a comprehensive approach to donor education, using a five-stage model that begins with discovery of the prospective donor's goals and intentions, followed by planning, research, program design and implementation, and finally evaluation.
- The Rockefeller Foundation Philanthropy Workshop *(www.rockfound.org)* is targeted to very affluent prospective donors. Participation costs $15,000 and is limited to 12 people per session.
- The National Center for Family Philanthropy *(www.ncfp.org)* encourages families and individuals to create and sustain their philanthropic missions. The center conducts workshops for donors and families on a variety of topics and engages in substantial research and information gathering related to family philanthropy.
- There are specialized resources for donors with particular interests, values, or backgrounds: for example, the Jewish Funders Network, the Gathering (Christians generally), FIDALCO (Catholics in particular), the Philanthropy Roundtable (conservatives), the OutGiving Project (the gay, lesbian, and bisexual community), and others.

- Harvard's Hauser Center for Nonprofit Organizations *(www.ksghauser.harvard.edu/)* offers executive education in strategic giving *(www.ksghauser.harvard.edu/html/education.html)* through a collaborative effort between the Kennedy School of Government and Harvard's Business School. It brings together both new and well-established philanthropists who want to move beyond traditional practices in giving and develop new frameworks to maximize the social impact of their gifts.
- The Stanford Graduate School of Business' Center for Social Innovation *(www-gsb.stanford.edu/csi/)* focuses on bringing entrepreneurship and research into the social sector. With the Stanford Executive Education Program, it cosponsors the High Impact Philanthropy Program, a week-long symposium that helps donors think strategically about their philanthropy.

Resources for Higher Education Development Officers

There are a great many resources available that are geared for development officers at higher education institutions, rather than the donor. However, some may be interesting for a donor to peruse for understanding "the other side" of the relationship. For example, the Center on Philanthropy at Indiana University *(www.philanthropy.iupui.edu/)* houses the Joseph and Matthew Payton Philanthropic Studies Library *(www-lib.iupui.edu/special/ppsl.html)*, which has an online searchable catalogue of documents related to philanthropy. Likewise you might want to check out the *Chronicle of Philanthropy* home page *(www.philanthropy.com)* and consider subscribing to it.

A few books that may be of interest include

- *How to Get Million Dollar Gifts and Have Donors Thank You!* by Robert F. Hartsook, J.D., Ed.D. (ASR Philanthropic Publishing, 2000)

  Hartsook recounts stories of million dollar or higher gifts made by American donors.
- *Developing an Effective Major Gift Program* by Roy Muir and Jerry May, editors (Council for Advancement and Support of Education, 1993)
- *The Successful Capital Campaign* by H. Gerald Quigg, editor (Council for Advancement and Support of Education, 1986)

- *Advancing Small Colleges: Strategies for Success in Alumni Relations, Communications, Fund Raising, Marketing, and Enrollment Management* by Wesley K. Willmer (Council for Advancement and Support of Education, 1986)
- *Parents Programs: How to Create Lasting Ties* by Larry J. Weiss (Council for Advancement and Support of Education, 1989)

  "Parents who believe your institution cares about their students will become members of your most loyal constituency."
- *Handbook of Institutional Advancement* by Peter Buchanan (Council for Advancement and Support of Education, 2000)
- *The Capital Campaign in Higher Education Practical Guide for College and University Advancement* by the National Association of College and University Business Officers (1995)
- *Annual Giving: A Practical Approach* by the Council for Advancement and Support of Education (2000)
- *The Art of Planned Giving: Understanding the Culture of Giving* by Douglas E. White (John Wiley and Sons, Inc., 1995)

APPENDIX B Interview Protocol

Individual interview questions were not highly structured, but each interview covered the same sequence of general topics. The intent was for interviews to be approximately one hour in length, although some subjects talked for considerably longer.

1. Brief introduction to RAND and description of project's purpose and scope.

- This is a RAND study of philanthropic opportunities in higher education. The goal is to help potential donors understand the options, opportunities, and limitations of giving to higher education institutions, not on a school-by-school basis, but for the sector as a whole.
- Comments made in the interview will not be attributed to the school and/or individual without permission.

2. Please tell us about your own experience in higher education development.

- Institutions at which you've worked/to which you've given
- Types/range of giving with which you are most familiar
- Special insights/meaningful lessons from past experiences

3a. [Development officers and institutional leaders] Please tell us about the organization of development efforts at your school.

- Sources and range of funding (e.g., private versus public, national versus local, amount of largest individual donation)
- Types of gifts most often received, most valued, most difficult to obtain, etc.
- How fundraising procedures are organized across the university (e.g., through departments, schools, or the institution as a whole)
- Overall supervision/management of fundraising programs; range and intensity of involvement of the institution's leadership
- Special guidelines and procedures for acceptance of gifts, donor recognition levels, gift naming opportunities

- Cultivation, solicitation, and typical stewardship of donors at various levels

3b. [Donors] Please tell us about the development process as you experienced it.

- Development of relationship with the school(s)
- Important/difficult decisions (e.g., concerning amount, purpose, timing, etc.)
- Objectives in giving
- Challenges (if any) overcome to achieve objectives
- Feelings/emotions concerning school, individuals from the school, gift, etc. at various points in the process

4. What advice would you give an acquaintance/relative who wanted to create a particular legacy by giving to higher education?

- Determining goals
- Selection of school
- Selection of type of gift and associated restrictions (if any)
- Pitfalls to avoid

5. Are there other issues a prospective donor should know about?

- Anecdotes about other donors' experiences that you might be able to share
- Common misconceptions concerning universities generally or development in particular
- Opportunities for support, training, or education
- Recommended reading, web sites

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