

In the Know

Educating your organization's leaders about philanthropy and fundraising: start early and do it often, and they will want to be involved

By Rick Bragga, J.D., FAHP



What do your board members think when they hear the words “fund development” or “fundraising”?

Do they think of special events or Girl Scout cookies or the United Way? If you have ever heard or said, “They just don’t understand what I do,” or “They don’t want to be involved in fundraising,” you might want to ask yourself what you have done to educate your board regarding the big picture of fund development.

It is up to fund development professionals to build a strong, positive image of the profession among board members or change misperceptions that they already may have. Do they understand how the fundraising process really works? Do they have sufficient understanding of how all of the elements of fund development are

strategically interrelated? Do they understand how dependent fund development is upon the other departments in your organization?

If not, to paraphrase the often-heard political quote regarding voting, your board’s education about philanthropy should be done “early and often.”

A Definition

Board orientation is the first and best opportunity to start your board members off on the right foot. New members are fresh, interested and most likely to respond. To begin, explain exactly what fund development is. One way to describe it is “the *process of soliciting support for worthy causes.*”

Process. Fund development is not a one-step “ask,” but rather a series of activities to achieve an objective.

Soliciting. For the most part, support does not just happen. You have to ask—more often for a specific amount and purpose.

Support. This can take many forms—all of which are important and can advance a charitable organization’s mission—including:

- Money and equivalents (e.g. stocks, bonds, trusts, annuities, etc.)
- Other tangible assets (e.g. property, real and personal)
- Volunteerism
- Advocacy (legislative and community)

Worthy. This is especially important to donors because they want to be part of something that is successful, will accomplish a specific goal and will be around for the future. No matter how large a charity’s endowment may be, there are always additional, meaningful projects that cannot be funded by



Why Do Donors Give?

There are as many reasons to give as there are donors. However, various surveys and interviews have identified the following reasons as some of the most basic:

- Gratitude for service or kindness or care
- Compassion for those in need
- Legacy or permanence of name or program
- Desire to make a difference or change lives
- Belief in or commitment to an organization's mission and cause

While no savvy donor would ignore tax benefits, they are generally not primary motivators for gifts.

Who Gets the Money?

The question "Where does all this money go?" is especially important to donors. According to the American Association of Fund Raising Counsel's *Giving USA* (www.aafrc.org), total charitable giving in 2004 was distributed as follows:

- Religious organizations—35.5 percent
- Educational institutions—13.6 percent
- Foundations—9.7 percent
- Health organizations—8.8 percent
- Human services—7.7 percent
- Arts, culture and humanities—5.6 percent
- Public-society benefit organizations—5.2 percent
- Environmental/animal organizations—3.1 percent
- International affairs organizations—2.1 percent
- Other—8.7 percent

the income from operational activities. Remember that needy charities may not be worthy, and worthy charities may not be needy, depending upon the case for support.

Where's the Money?

Total giving in the United States in 2004 was an estimated \$248.52 billion. Adjusted for inflation, giving rose by 2.3 percent—the first positive growth seen in inflation-adjusted terms since 2000, according to the Glenview, Ill.-based American Association of Fund Raising Counsel's *Giving USA* (www.aafrc.org). Where did all that money come from? The most recent *Giving USA* report shows that

- Giving from individuals remains the largest source, accounting for three-quarters (75.6 percent) of total charitable giving. Giving from indi-

viduals increased by an estimated 4.1 percent to \$187.92 billion, compared with the revised estimate for 2003 of \$180.58 billion.

- Bequests reached an estimated \$19.80 billion (8 percent of total giving), an increase of 9.2 percent from the previous year.
- Giving by foundations totaled an estimated \$28.80 billion (11.6 percent of all estimated contributions in 2004), up 7.3 percent from 2003.
- Giving by businesses, corporations and corporate foundations reached an estimated \$12 billion in cash and in-kind donations, up 7.3 percent from the previous year, to account for 4.8 percent of total estimated giving.

The important question for fundraisers is, therefore, "Where does your organization get its revenue?"

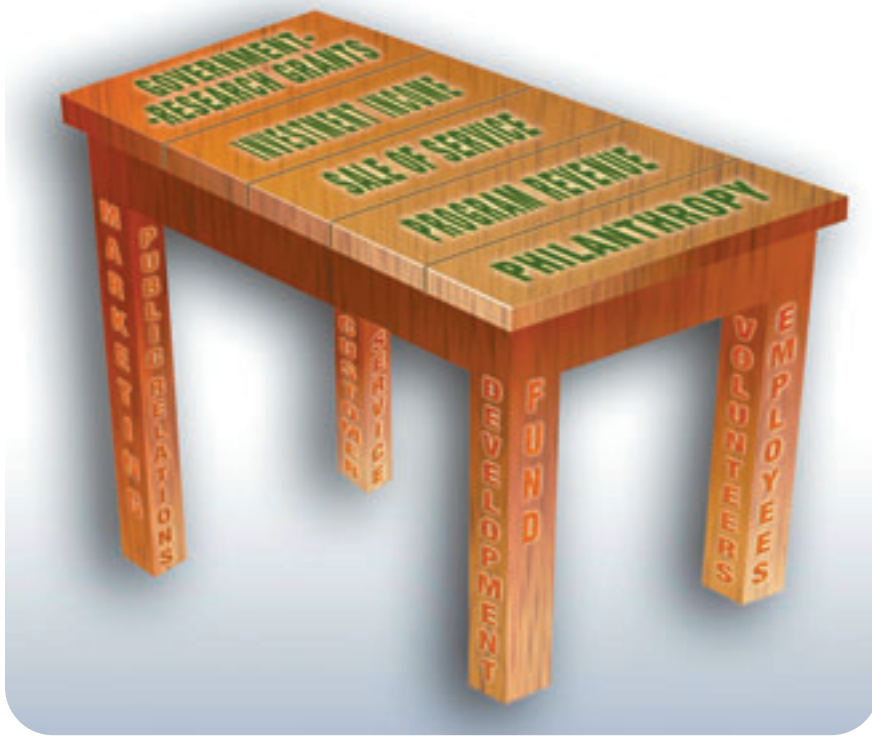


Figure 1

Revenue Sources

Using hospitals as an example, there are five basic sources of revenue (see Figure 1 above):

- **Program revenue:** a diminishing source of reimbursement and by far the largest source of income
- **Sale of services:** a very small por-

tion of the income pie and limited by anticompetition issues

- **Government grants:** for research and education that vary with institutional mission and size, but are shrinking due to governmental budget cuts and increased competition
- **Investment income:** dependent upon the market and a sizeable investment fund
- **Philanthropy:** virtually no limitations and a high rate of return-on-investment for monies spent on acquisition. While careful attention must be paid to supporting the core mission of patient care, philanthropy is the most likely source of revenue to provide expansion of facilities and services.

How is revenue generation supported at your organization? The illustration (Fig. 1) shows how each source of revenue is supported, directly or indirectly, by the various activities that provide service and promote awareness. Without excellence in each of these areas, overall support will diminish.



Figure 2



Figure 3

1. **Employees and volunteers.** When they do their job well, the customer is satisfied and often impressed and grateful.
2. **Customer service.** Beyond just doing one's job well, outstanding customer service has been proven to generate strong loyalty and high positive emotional responses. This provides a solid basis on which to ask for philanthropic and other support.
3. **Fund development and community services.** These two components in healthcare are very externally focused and touch the most grateful and the most affluent population that the organization serves. Each can shape the image of the organization and, therefore, the perception of important audiences.
4. **Marketing and public relations.** These activities shape the image of the institution with both global and individual audiences, much as fund development and community services do.
In the case of healthcare, another

key support group would be physicians/healthcare providers. Patients see private practice physicians or other contracted health professionals as extensions of the hospital—their performance has an impact upon patients' satisfaction and thereby the organization's reputation. In addition, they are a source of grateful patients' referrals to the fund development office.

Fund development activity and, ultimately, overall institutional support benefit from a complex team effort. That effort blends performance and reputation with the communication of the need to maximize additional support.

Prospective Audiences

Who are your prospective audiences? Dropping a rock into a pond perfectly illustrates this answer (see Figure 2). If your institution is the rock, those closest to you will feel the largest impact and, therefore, should have the most interest in ensuring success. Who are those individuals or groups? Most

institutions share a similar "inner" circle of board members, volunteers and employees.

The second ring usually contains those with whom your institution has regular but less-frequent or less-intense contact. The intensity level of the relationship and frequency of the contact can vary depending upon circumstances. The audiences include clients, such as patients, alumni and ticket holders, as well as vendors, church affiliations and the like.

The outer ring includes those who have an interest in your work for some reason but are not significantly affected by it on a regular or intense basis. This group may include foundations, community groups, corporations and government. Once prospective audiences are identified, the next step is asking for support.

Above and Below the Surface

Think of fund development as an iceberg, with the "ask" being the visible and most recognizable aspect (see Figure 3).



Figure 4

(Editor's note: The donor pyramid traces its origins to the pioneering work of Robert and Joan Blum in the 1960s. Also see *Fundraising Fundamentals: A Guide to Annual Giving for Professionals and Volunteers* by James M. Greenfield. John Wiley & Sons, 1994.)

A fundraising maxim is that a successful solicitation combines the seven “rights”:

- The right person
 - Asking the right prospect
 - For the right amount
 - For the right purpose (project, building or service)
 - At the right time
 - In the right setting (home, office or other)
 - In the right way (presentation style: numbers, emotion, electronic format or not, etc., including appropriate recognition)
- If an “ask” generates a no, conduct

a reevaluation to determine which “right” was not correct. Then reenter the prospect in the cultivation process.

When a solicitation is successful, acknowledge and recognize the gift. Then, cycle the donor back into the cultivation process for additional stewardship and possible future gifts.

It is often said that the best prospect is a satisfied donor. It only stands to reason that a previous donor will have:

- Already overcome any objections
- The basic knowledge necessary to make an additional commitment
- Positive experiences with the use of previous donations

However, as shown in Figure 3, the vast majority of activities needed to achieve a successful ask are “below the waterline” and, therefore, not seen or understood by many.

The bottom third of the activities iceberg is basic program planning. Before a philanthropic or programmatic product can be put into the marketplace, it must be thought of, developed, approved and packaged (using language, communication vehicles such as brochures, descriptions and drawings, etc.).

The middle third, which requires an equal amount of preparation, is culti-

vation. Depending upon the size of the gift, a plan and timetable should be developed. Research may be needed to ensure the most tailored and effective approach. Volunteer leadership also must be recruited and trained.

A number of the activities in the bottom two-thirds of the fundraising iceberg appear to be sequential, and most often they are. However, there may be circumstances when they change order or happen concurrently. For example, some key leaders may be recruited prior to the project identification because of their history and commitment. Others may be recruited to leadership positions as a result of the research and evaluation process's identifying them as major prospects.

The top third of the iceberg is solicitation and postsolicitation activity.

Power of the Pyramid

The donor pyramid is a familiar fund development tool used to illustrate an individual's lifetime movement from prospect to donor. The pyramid in Figure 4 is a unique three-dimensional compilation that adapts several distinct components.

Each side represents a different perspective on the prospect-to-donor continuum.

The front side is the traditional fund development process. It describes the activity areas in which an individual can be involved to "move up" the ladder of giving. Several general rules are important background information necessary to understand the pyramid process:

- At the bottom of the pyramid there are large numbers of prospects. With each step up, there are fewer total numbers of donors.
- The overall dollars are largest at the top of the pyramid and diminish in size toward the bottom.
- Various techniques are used as ladders to assist donors up the pyramid, including personal visits, mail, events, telephone, radio, television and the Internet.
- The higher the dollar figures relative to a particular donor, the greater the need for personalization and face-to-face contact.

The right side of the pyramid

The board will need to be exposed in small segments to an extensive curriculum that continues to expand and enhance its knowledge of all areas of fund development.

describes the psychological process of involvement. As both time and level of activity increase with an organization, so does the emotional attachment. At the beginning there may be only awareness. With continued positive experiences, commitment can grow to the ultimate level—legacy.

The rear side of the pyramid is a hierarchy of human needs. It is an enhancement of the work of Abraham Maslow, a 20th century psychologist. Maslow and others who followed described human behavior as a hierarchy of needs moving upwardly on levels of a pyramid. There are obvious correlations to donors' attitudes toward giving.

The left side of the pyramid shows just a few examples of the vehicles that are part of the fund development process.

Traditionally, a prospect is seen as starting from the bottom and "moving up" the pyramid. However, there are a number of reasons why prospects may rise immediately to a higher starting level rather than starting at the bottom:

- Their time of life (age, retirement, children grown, etc.)
- A significant event with the charitable organization
- The size of their initial gift
- Institutional needs that require immediate major gifts without prior cultivation of prospects

How Are Contributions Spent?

Once the money has been raised, there are several choices with regard to distribution:

- Annual gifts are much like a per-

sonal checking account—funds come in (often unrestricted) and, in relatively short order, are spent.

- Restricted funds and capital gifts are more like a savings account that is accessed from time to time as needed for very specific expenditures. Although the time frame for distribution may vary, these funds and gifts are almost always designated for a specific purpose and, therefore, must be expended accordingly.
- Endowment is the organizational equivalent of a retirement account that provides a future source of income and creates some measure of financial stability. True endowments allow only the income generated to be distributed. Initial or additional gifts remain untouched, except under unique or very extraordinary circumstances.

Conclusions

This orientation overview should be considered only the beginning of an ongoing process. While education of this sort creates a common platform of understanding from which to generate support for the organization's mission, ultimately, over time, the board will need to be exposed in small segments to an extensive curriculum that continues to expand and enhance its knowledge of all areas of fund development.

At a previous employer, a board member made all the time invested in orientation worthwhile. During a monthly foundation update to the hospital's parent board he asked, "Since that's awfully low on the pyramid, should we be spending so much time on that?" In most cases, the revelation is not so obvious. However, hearing your own words and ideas come back from a volunteer leader is very rewarding. ☺

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