Philanthropists, Philanthropoids, and Philanthropests:

How We Can Work Together for a Better Community

By Joseph Selvaggio
Louis W. Hill, Jr. Fellow

PHOTO BY JIM MIMS

The Louis W. Hill, Jr. Fellowship was created in 2002 by the Hubert H. Humphrey Institute of Public Affairs, the Northwest Area Foundation, and the Grotto Foundation to commemorate the 100th anniversary of the birth of Louis W. Hill, Jr. The mission of the fellowship is to recognize an outstanding community leader who has had a distinguished record of leadership, service, and philanthropy.

The Northwest Area Foundation and Grotto Foundation were created by the son and grandson (respectively) of James J. Hill, the railroad magnate. Together, the foundations have provided $1,000,000 in grants to support the fellowship over the five years of the program.

PHOTO BY JIM MIMS

December 11, 2003

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ACKNOWLEDGEMENTS

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Thank you, thank you, thank you to these and all the others who offered advice and encouragement during this journey.

Sincerely,

Joe Selvaggio
Louis W. Hill, Jr. Fellow, 2003

To commemorate the 100th anniversary of the birth of Louis W. Hill, Jr., the Hill family, through the Northwest Area Foundation and Grotto Foundation, established the Hill Fellowship with a $1 million gift to the Humphrey Institute of Public Affairs. Each year for a period of five years, the fellowship will recognize an outstanding Minnesotan, who, like Louis W. Hill, Jr., has a distinguished record of leadership, service, and philanthropy. The fellowship award enables the Hill Fellow to research, document, and organize his or her reflections and thoughts on philanthropy. During their fellowship year, Hill Fellows collaborate with faculty from the Humphrey Institute and the University of Minnesota and participate in lectures, workshops, and other educational opportunities created for students and members of the community. At the end of the fellowship year, the Fellow shares his or her reflections and findings through a written publication and a symposium hosted by the Humphrey Institute. This year, the fellowship's first, the Institute was honored to have Joe Selvaggio as its Hill Fellow. Mr. Selvaggio is widely regarded as a leader in philanthropic giving and as an organizer and advocate for the poor.

The Hill Fellowship program is an important component of the Institute's new Center for Leadership of Nonprofits, Philanthropy, and the Public Sector. The center's purpose is to promote effective collaboration and leadership across institutions in the nonprofit, philanthropic, and public sectors in order to address complex public problems, serve the public interest, and advance the common good. The center's focus on strengthening relationships across sectors recognizes the fact that in the United States and around the globe, critical problems, such as environmental protection and access to housing and health care, increasingly are addressed by a combination of public and private initiatives. The Hill Fellowship selection criteria, emphasizing community leadership, service, and philanthropy, echo this focus. Joe Selvaggio is the embodiment of these critera—not only deeply embedded in the nonprofit community but also engaged with the worlds of corporate philanthropy and individual philanthropic giving, all with a passion to promote the common good.

Let me briefly summarize what follows. The primary purpose of this publication is to share Joe's reflections on his nearly 40 years of work with the poor and with the wealthy; his thoughts on the health of the nonprofit sector and how its effectiveness can be improved; how we can stimulate corporate philanthropic giving; and the role the Humphrey Institute could best serve in the local nonprofit and philanthropic communities. His reflections and thoughts are augmented by those of many of his colleagues. Thus, the paper also provides a summary sketch of the accumulated wisdom, probably numbering in the hundreds of years, of many local philanthropic and corporate leaders.

A secondary purpose of the paper is to provide readers with additional resources, data, and information related to the topics Joe addresses. These appear as appendices and include information on the size of the nonprofit sector and patterns of giving in the United States and in Minnesota. The appendices also address the views of local philanthropic leaders on the Charitable Giving Act of 2003, that, as initially proposed, would have required that the minimum annual five percent payout of foundation assets be entirely for grants rather than including administrative expenses, and, on giving to advocacy nonprofit organizations. All in all, the breadth of the paper is considerable, and we hope that you find it thought-provoking and useful.

Melissa M. Stone, Ph.D.
Gross Family Professor of Nonprofit Management
Director, Center for Leadership of Nonprofits, Philanthropy,
and the Public Sector

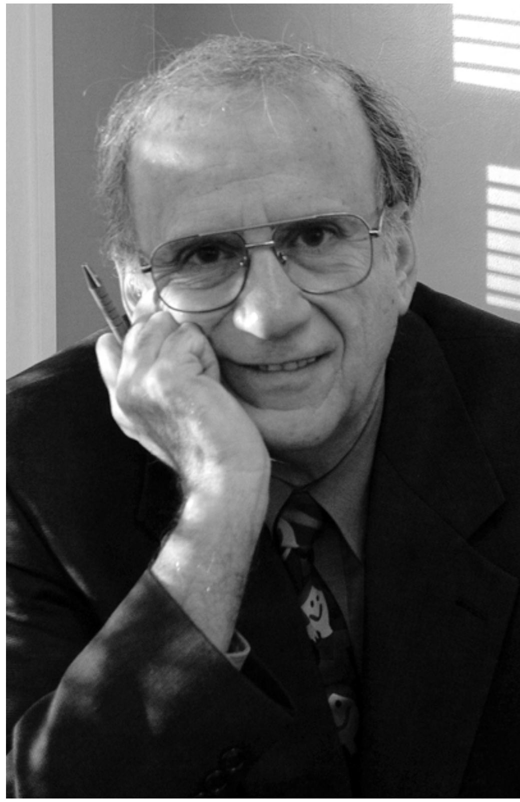


PHOTO BY RICK SPAULDING

I've spent most of my life trying to help the poor build a better life. Starting with my work as a newly ordained Dominican priest, I ministered to the poor around Monet Ferry, Louisiana, and the inner-city black neighborhood on the West side of Chicago. After the first year, I settled in as a priest in Holy Rosary parish on the near South side of Minneapolis, Minnesota. It was a mixed congregation with blacks, whites, American Indians, and recent immigrants. Ninety-five percent of the middle-class members had fled. The remaining parishioners struggled for survival and the basic necessities.

President Johnson's War on Poverty was in full swing. In August 1968, shortly after Martin Luther King, Jr. and Bobby Kennedy were assassinated, hopes were dashed, but commitment among my co-workers was still strong and vital. We believed in civil rights for the poor, investment transfer of wealth from rich to poor, and a better life for all who were committed to work for it.

Not everyone can afford to devote his life to philanthropy. I've been very fortunate to have had enough friends to support me so I could "make a living" helping the poor. And I've had the courage and humility to ask for their help. After leaving the priesthood, I launched my philanthropic work by getting 100 of my friends (wealthy, moderate- and low-income) to send me a monthly check of $5 to $25 to support my work for the poor. That lasted for three years, a transition time long enough for me to start Project for Pride in Living (PPL) and make it strong enough to support an annual salary of $12,000 for me.

Twenty-five years later, I ended my formal work years in much the same way. I had turned over the reins of PPL to Steve Cramer, the new executive director, but I wanted to continue working for the poor. I asked 13 of my rich friends to help me work for five more years at my then- salary of $50,000. They agreed, and my transition plans were fulfilled.

When the sponsors of the Louis W. Hill, Jr. Fellowship invited me, the first of five fellows, to reflect on my 30 years of experience in the nonprofit sector, practical person that I am, I found myself even more inclined to look to the future, to probe my vision and the visions of my colleagues about what philanthropy and the nonprofit sector should look like.

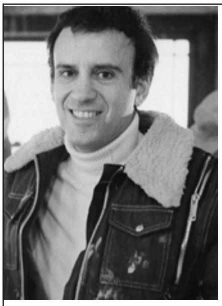
The Humphrey Institute's interest in philanthropy and the nonprofit sector gave me even more incentive to look to the future for a *plan*, not just for the whole of the nonprofit sector but for the niche the Humphrey Institute could serve both in and for the nonprofit sector.

The title of this paper, *Philanthropists, Philanthropoids, and Philanthropests: How We Can Work Together for a Better Community,* describes what I hoped to accomplish through my fellowship. Philanthropists are the givers of the world, people such as Ken Dayton. Philanthropoids are the managers of large philanthropic gifts, the Emmett Carsons of the nonprofit world. Philanthropests are the Joe Selvaggios and other workers in the field trying to craft a better world through social services, education, and the arts. The three must work together like the legs of a tripod. If one or two legs try to function without the third, money will be wasted and the public will not be served.

The questions I hope to answer in this paper are:

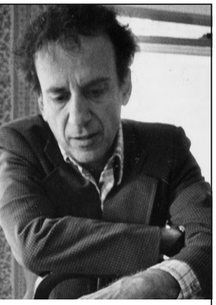
1. What lessons have I learned from my 30 years in philanthropy?
2. What are the nonprofit sector's strengths, weaknesses, opportunities, and threats?
3. How can we stimulate corporate CEOs to be more involved in local philanthropy?
4. If the Humphrey Institute delves into philanthropy, how can it best serve the present actors and not duplicate their work?
5. How can we improve the effectiveness of the nonprofit sector?

Before I address these questions, I will describe my work with Project for Pride in Living and the One Percent Club and what 30 years in philanthropy has taught me.



Highlights of Joe Selvaggio's Philanthropic Career

PHOTO BY MINNEAPOLIS STAR



Born in Chicago	1937
Attended Aquinas Institute	1958–1966
Ordained in the Roman Catholic Dominican Order	1965
Worked as the parish priest of Holy Rosary parish	1966–1968
Left the priesthood	1968
Organized Twin Cities Grape Boycott for Cesar Chavez	1968
Founded Project for Pride in Living	1972
Served as executive director of PPL	1972–1997
Received Doctorate of Humane Letters from Macalaster College	1991
Received John Ryan Award from the University of St. Thomas	1996
Named Minnesotan of the Year by *Minnesota Monthly*	1996
Founded the One Percent Club	1997
Awarded Paul Harris Fellowship by the Rotary Club of Minneapolis	1997
Organized Give Back Day	1999
Selvaggio Affordable Housing Project launched by Phillips Partnership	2000
One Percent Club presented with Responsive Philanthropy Award by the Minnesota Council of Nonprofits	2001
Awarded the Louis W. Hill, Jr. Fellowship	2003


PHOTO BY TARA C. PATTY

PPL Motto and Mission

Give me a fish and I eat for a day.

Teach me to fish and I eat for a lifetime.

PPL assists low-income people to become self-sufficient by providing employment, job training, housing, and support services.

I started Project for Pride in Living, Inc. (PPL) because I felt obliged to carry out the work of Martin Luther King, Jr. in some form. Friends from St. Joan of Arc parish in Minneapolis and the business community joined forces with me to create PPL. I founded PPL on the belief that poor people can be helped to live a more fulfilled life if they are given a *hand up* rather than a *hand out*.

PPL has helped thousands of low-income people improve their lives. The programs foster self-sufficiency by providing employment, job training, housing, and support services. Three values guide PPL's work: (1) commitment to a strong work ethic, (2) personal accountability and responsibility, and (3) the participation of the disenfranchised in their own growth toward self-sufficiency.

The efforts of PPL improve the well being of the Twin Cities community as well as the individuals served. Just as we invest in our children's education through trade school or college, we can invest in those who haven't had the advantages of a middle-class or upper-class upbringing. The payoff is the same. If we don't invest, the dire consequences are the same and the misery index shoots up accordingly.


PHOTO BY JEFFREY GROSSCUP

Project for Pride in Living
Annual Achievements

- Helps more than 6,500 people through several interconnected programs.
- Assists in the educational achievement of 600 children and youth.
- Aids 800 adults through effective employment and job training programs.
- Makes available 640 units as affordable housing
- Undertakes housing, commercial, and community development projects as needed.

PHOTO BY JONAH NIELSON

PHOTO BY VANGELINE ORTEGA

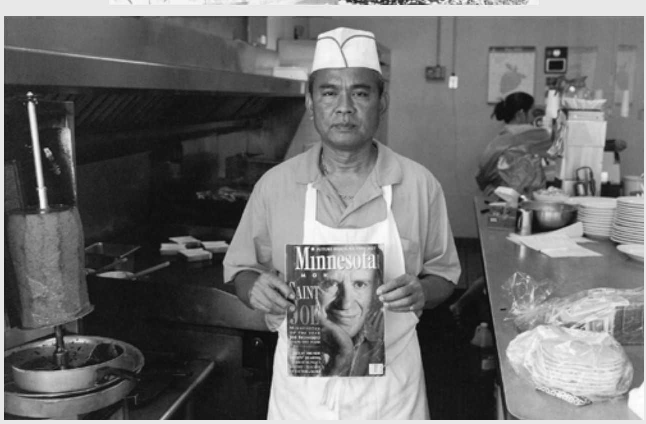
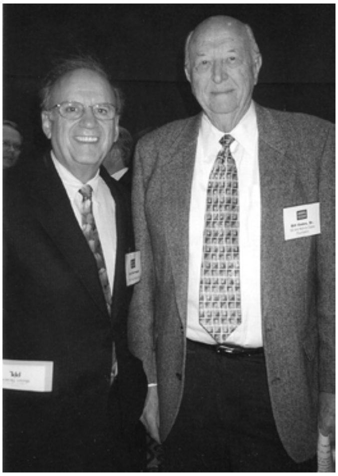


PHOTO BY JEREMY GROSSER



One Percent Club Mission

Increase charitable contributions in our community by engaging people to commit to a minimum standard of giving: the greater of one percent of net worth or five percent of income annually.

I started the One Percent Club in 1997 because I felt obliged to try to develop *resources* for the PPLs of this world. By definition I had to turn to the rich, because the rich have the money that nonprofits need. Most folks like to continue working with the poor, but since I was "retired" from PPL, I thought I should cultivate the rich to support the groups serving our community in the nonprofit sector—a sector I knew fairly well.

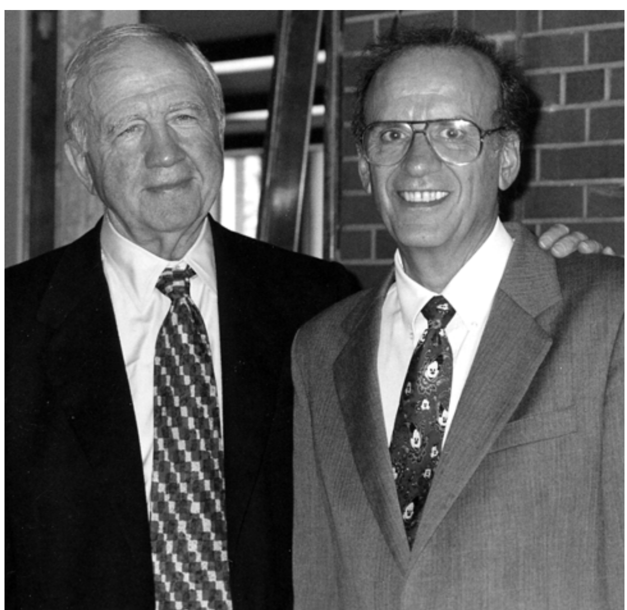
The mission of the One Percent Club is to increase charitable contributions in our community by engaging people to commit to a minimum standard of giving: the greater of one percent of net worth or five percent of income annually. The focus is on people of means. Between 1999 and 2003 alone, One Percent Club members gave an additional $100 million to charities in the community.

Since its inception in late 1997, the One Percent Club has grown at the rate of ten members per month, bringing the total membership to more than 700 in November 2003.

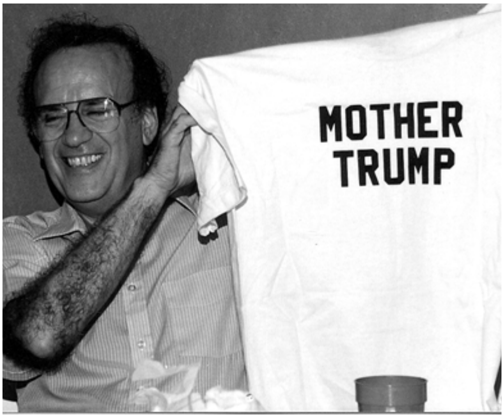
Through my work with the One Percent Club, I've learned that wealthy people (or all people, for that matter) are generous. But they need encouragement to be more generous. And some need a *standard* for their generosity. They wonder whether they are giving too much or too little. They need to be educated about the various nonprofits that are in line with their passions, their values, and their causes. Then they write the check.

One Percent Club Achievements (1997–2003)

- Recruited more than 700 members.
- Stimulated the donation of an additional $100 million to charities. Created a speakers bureau and sponsored a forum on philanthropy in 1998.
- Received award from Association of Fundraising Professionals (1999)
- Held first "Give Back Day" event in 2000.
- Received National Award from Volunteers of America for Creative Philanthropy (2001).
- Received Responsive Philanthropy Award from the Minnesota Council on Nonprofits (2001).
- Received philanthropy award from the Women's Community Foundation (2002).



Joe with Carl Pohlad



The key to Joe's success: combining the passion of Mother Theresa with the connections of Donald Trump!

Oil magnate and philanthropist J. Paul Getty said, "If you get up early, work late, and pay your taxes, you will get ahead if you *strike oil*." My key to success in philanthropy is similar: If you get up early, work late, and pay your dues, you will get ahead if you *find rich friends*. Other than learning the value of having wealthy friends, my 30 years in philanthropy have taught me many lessons.

Focus on those who want to be helped. You can't save people who don't want to be saved. One story that is humorous but risky to tell is about a woman who wasn't ready to be helped. A PPL self-sufficiency worker told the woman, "PPL is a great organization. It can get you bus tokens, a loan for a car, help with a down payment on a house, and job training. But it's not a give-away program. You've got to put yourself into it. Are you willing to make the big effort?" The woman responded, "Sure, but I want to be real upfront with you. I ain't going outside in no winter time." Not all people are ready for the *hand up*. If they're not ready, try again next year. I said it was risky to tell that story because some people are quick to judge that this woman is typical of poor people. I assure you, she is not.

Be thrifty. Russ Ewald, the legendary head of the McKnight Foundation, taught me the importance of frugality early in my career. I wanted to have a 10th anniversary party to celebrate PPL's participants and volunteers. Russ said, "Well, have it in a church basement with volunteers cooking the meal. You don't want to spend donors' money on hotels and fancy meals." I once asked a foundation executive if foundations hold themselves to the same administrative standards they demand of the nonprofits they fund. Although she said "yes," I know the answer is "no." Compared with nonprofits, foundations have nicer office space, provide higher salaries, and spend more on celebration expenses.

Be persistent. Many times a funder has said, "Okay, you've worn me down. I'll give you a check." Or, with the One Percent Club, they'll say, "You're relentless. I'll send in the enrollment card tonight." Advertisers say a potential customer must be asked an average of eight times before a sale. Philanthropy is no different.

But don't harass people. *Badgering* people rarely works whether you're dealing with the rich, the poor, or the middle class. If a funder doesn't want to buy into your passion, move on to someone else. If a poor person doesn't want to improve, move on to another person who is ready. Don't waste time "breaking your pick" on people firmly planted against your wishes. Efficiency matters; come back at a later date. A gentle approach can be more effective. For example, a One Percent Club member who was trying to recruit a new member told her, "The important thing for you to decide now is whether you're going to be a giver or a non-giver. If you decide to be a giver, start small now. Later you will be more liquid and can give much more."

Work with people who respond quickly and honestly. In my earlier days I wasted time with people who didn't produce. I've come to love speed and honesty, and have a little thicker skin when it comes to people who disagree with me. "It's not personal, it's business," as the Godfather would say.

Start *now*, no matter how small. Try to give to a standard. One percent of net worth or five percent of income, whichever is greater, is a reasonable standard. In time, as your wealth increases, your contributions will be large enough to make a noticeable difference. Enjoy the *psychic income* you get from giving because we don't do things for a long time that we don't enjoy.

Avoid burnout. Philanthropist Erica Bouza once said, "I burn out every night. Then I light up every morning. I don't believe in long burnout periods." Good advice, but when you have to overwork, take time to relax or go on a vacation. Also, take pleasure in the end product. If you're funding "poor people advancement," spend time looking at your success stories. If you're funding small theaters, spend time attending performances.

Focus on your successes, not your failures. Beating yourself up over failures is pointless. I still get depressed when I hear of a person I know who builds a $20 million home in Hawaii, and another person who has a $2 million furniture budget, but I just say to myself, "get over it; you can't win them all."

The American Public Gives for Results

"It profits us to strengthen nonprofits. A great many nonprofits still believe that the way to get money is to hawk needs. But the American public gives for results. It no longer gives to 'charity;' it 'buys in.' The nonprofits have the potential to become America's social sector—equal in importance to the public sector of government and the private sector of business."

— Peter Drucker, 1991

The nonprofit sector can accomplish things that no other sector can, because it is free to focus on immediate needs. Nonprofits can be more entrepreneurial than government. Nonprofits can concentrate on doing the right thing, without having to be so preoccupied with the bottom line or the next election.

When a president addresses the people on the state of the nation, they generally know what the politician is talking about. But if I were to give a speech on the state of the nonprofit sector, the people listening might have very different definitions of the nonprofit sector.

For the purposes of this discussion, nonprofits are the part of the economy that is not funded through the fee-for-service for-profit sector or through the tax-funded government sector. Notice I said "funded." In other words, there is a money transfer or at least a time transfer, but it is *voluntary*, not *obligatory*. That's why the nonprofit sector is sometimes called the "voluntary" sector or the "third" sector to distinguish it from the for-profit and government sectors.

In the United States, we have a fairly large nonprofit sector. In 1998, nonprofits accounted for 6.7 percent of the national income; the government sector accounted for 13.3 percent; and the for-profit sector generated 80.0 percent of the national income (Weitzman, et al., 2002).

Is this 80%–13%–7% a healthy mix? It depends on the country and the vitality of each sector. In a perfect world there would be no need for the nonprofit sector. People would buy what they needed from one another, and those that could not afford certain services would receive enough tax credits, through food stamps or housing vouchers, for example, to pay for the services. Such services as public works and defense, which can be handled more efficiently by the government, would be paid for by taxes.

Sources of National Income in 1998

	Income (billions)	Percentage of Total
For-profit Sector	$5,812.2	80.0%
Government Sector	$968.8	13.3%
Nonprofit Sector	$485.5	6.7%
Total National Income	$7,266.5	100.0%

(Weitzman, et al., 2002)

Note: Total net income earned in production excludes depreciation, other allowances for business, and institutional consumption of durable goods and indirect business taxes.

With that split in mind, is seven percent of national income derived from the nonprofit sector too big, not big enough, or just right? Is it healthy? Does it do its job of filling in between the cracks for the government and for-profit sectors well? What are its strengths, weaknesses, opportunities, and threats?

I set out to answer those questions through conversation with 30 individuals who have a notable track record in the nonprofit sector (see Appendix A for list of individuals). Most of these people also have had a distinguished record in the for-profit sector, and several are well known in the governmental sector. Here are the themes gleaned from the conversations with them.

STRENGTHS

People are talented and hard working. A major strength of the nonprofit sector is its people. Over and over I heard that there are good people in the voluntary sector—people, not just with good hearts, but also with good heads—talented, hard-working people both on the giving and implementing side. Sure, some could be better trained as managers—and we should invest in them—but they already are good and eager to get better.

Nonprofits have entrepreneurial flexibility. When I asked several people to grade nonprofits compared with the other two sectors, nonprofits earned a "B+," business a "B," and government a "C+." Entrepreneurial flexibility makes nonprofits able to respond quickly to new problems, such as SARS, malaria, AIDS, or the 9/11 tragedy. However, the smaller to mid-sized nonprofits and foundations tend to be more entrepreneurial and better run. The large ones can be more bureaucratic, just like large businesses and larger governmental entities.

The work of nonprofits is exciting. Whether we were talking about the theater, the visual arts, music, the environment, education, the disabled, the poor, healthcare, or sports, givers get excited about helping. Their passions burst through. I saw Ken Dayton's face light up when he talked about the beauty of classical symphonies and heard Tom Warth's voice rise with energy as he spoke of witnessing four boys in Africa reading the same book at the same time. To be honest, I must admit that I've heard people like Bruce Thomson say, "I just love business," and I've observed Don and Arvonne Fraser's love of politics, but I somehow feel that more people are excited about the causes of their favorite nonprofits than about business and the working of government.

The nonprofit sector has integrity. Business is losing its authority through scandals like Enron. The clergy have lost authority because of the abuses of children. Politicians are losing authority over special interest groups and favoritism. But the nonprofit sector seems to be gaining authority.

WEAKNESSES

The level of giving is too low to meet communities' needs. Some people boast that they give nothing to nonprofits; others woefully "undergive"—they give $1,000 a year when they can afford to give $50,000 per year. While it's estimated that 70% of American households give something to charity, that still leaves 30% who give nothing. The average annual contribution of $1,075 per household represents only 1.9% of personal income (Weitzman, et al., 2002). The One Percent Club and the Independent Sector recommend that each household give at least five percent of income. In Old Testament days, tithing (10%) was the standard. But in the modern world, with taxes taking much of the responsibility from the people, a five percent annual gift seems more acceptable.

The role of nonprofits is confused with the role of government. Nonprofits often do not do a good job distinguishing their efforts from the efforts of the government. When informed of how much the government spends to subsidize the housing needs of the poor versus a nonprofit housing provider, potential donors may think the nonprofit's efforts are insignificant or that the government should handle the problem.

Nonprofits are not driven by "the bottom line." Without the profit motive or watching every dollar as if it were their own, nonprofits lose their edge. Nonprofits have less sense of urgency to manage expenses and increase revenues. The discipline of "return on investment" is missing, and this scares off nonprofit investors and donors. Nonprofits have a different bottom line (results for their beneficiaries), and this often causes management challenges.

Performance is uneven. Some nonprofits are good at fundraising but bad at delivering service. Some have weak boards and strong staff or vice versa. Some have clear visions and missions but lack a hard-driven work ethic. It's hard to find nonprofits that do it *all* well.

On Forming Associations

"As soon as several of the inhabitants of the United States have taken up an opinion or a feeling, which they wish to promote in the world, they look out for mutual assistance; and as soon as they have found one another out, they combine. From that moment they are no longer isolated men, but a power seen from afar, whose actions serve for an example and whose language is listened

PHOTO BY JEFFREY GROSSCUP

OPPORTUNITIES

The nonprofit sector has room to grow. In 1978, Peter Drucker predicted that the voluntary sector would grow to 10% of the economy, from its 1978 level of five percent. In 1998, the nonprofit sector comprised almost seven percent of the national economy (Weitzman, et al., 2002). An increase of three percentage points would result in an additional $218 billion to support the work of nonprofits. Think of how many mid-sized theaters we could support, or how many rivers we could clean up, or how many disadvantaged workers we could turn into wealth producers rather than wealth users.

The diversity of nonprofits' employees can be leveraged. America prides itself on its diversity, as well it should. Nonprofits welcome minorities, women, and the disabled as staff members. After all, nonprofits are driven by a public purpose, not the bottom line. Chuck Denny, former CEO of ADC Telecommunications, says, "A diverse and eager workforce gives a nonprofit the edge in being effective, since the people power of a strong workforce is one of the best assets a company can have."

The raison d'etre inspires continuous improvement. People have an innate inclination to improve the well being of their lives and surroundings. The reason for being of any nonprofit is to improve the community. With that as a basis, the nonprofit has the right attitude; that is, we may be good, but we can be even better. The continuous improvement mentality propels us to go to the next level.

THREATS

The needs of the community are pressing. Indeed, the needs seem limitless. There are vast numbers of people without decent affordable housing, education, job training, a clean environment, health care, or art to make life more bearable.

Greed reduces giving. The fact that a substantial number of people are building $5 million homes, often as their second or third home, while many others are homeless testifies to the power of human greed. The poor distribution of wealth in this country does not bode well for the health of our communities—whether in the area of basic human needs, like health or housing, or in education and the fine arts. Apathy toward community problems often coexists in people afflicted with greed. Wealthy nongivers need to be educated first to be *minimal* givers and then to be *generous* givers.

Revenues are unpredictable. In 2002, giving by individuals in the United States—who represent more than three-quarters of all charitable donations—is estimated to have decreased nearly one percent when adjusted for inflation, to $183.73 billion (AAFRC, 2003). Fortunately, corporate giving made up for the decline in individual giving. Nonprofits need to be just as strong financially as for-profits, but unpredictable revenues can threaten their stability. There are relatively few endowed nonprofits. Funders tend to be fickle and cautious when times are uncertain and profits unreliable. A lack of reserves can lead to inefficiencies, lay-offs, and the suspension of services to clients.

CEO INVOLVEMENT IN LOCAL PHILANTHROPY

The nonprofit sector needs the involvement of chief executive officers (CEOs) from large for-profit companies as role models and instigators. By demonstrating an interest in the work of nonprofits, CEOs inspire others in their corporations to volunteer and donate money.

But the global economy and mergers have strained the old patterns of CEO involvement in local philanthropy. CEOs today are not as involved in their regional communities or the nonprofit sector as their predecessors were 30 years ago. It's been common to hear "when Ken Dayton was in his hey day, he and a handful of other CEOs would invite newcomer CEOs to get on boards—to get involved, and the needs would be tended to. Now the CEOs are too busy, not from around here, and are unapproachable."

How can we get the CEOs of large corporations more involved in the community's well being? Some corporations, such as General Mills and Wells Fargo, seem to have maintained their involvement despite major reorganizations. Surely if some CEOs can be involved, others could find ways and still be competitive.

ADC Telecommunications executives visit PPL Industries in 1979.

I conferred with my network of 30 philanthropists about this problem and held a special meeting with three current CEOs and three retired CEOs to discuss the situation. Warren Staley, the CEO of Cargill Corporation, hosted the meeting. The current CEOs also included Larry Moser, CEO of Deluxe Check Printers, and Leland Lynch, CEO of Carmichael Lynch ad agency. The retired CEOs attending were Winston Wallin of Medtronic, Inc., Doug Leatherdale of St. Paul Companies, and David Koch of Graco, Inc.

Although some of the people I consulted think it is a hopeless effort, most were optimistic that CEOs can be persuaded to be more involved in local philanthropy. Following are the ideas that emerged from our conversation.

Start small. Ask CEOs to be involved in small ways. Invite CEOs to be directors on nonprofit boards. Encourage them to support employee volunteer programs. Ask corporations to donate one percent of profits, which is the United States average for corporate giving, then advance to two percent of profits, closer to the Minnesota average for corporate giving. [According to the Center on Philanthropy (2003) the U.S. average for giving has hovered around one percent of pre-tax profits for several decades. For Minnesota, the average in 2002 was higher, between one percent and two percent (Building Business Investment in Community, 2003).]

Ask corporations to designate local executives to lead philanthropic efforts. CEOs often are here on a temporary basis or their headquarters is in another state or country. Encourage companies to appoint people as local chief philanthropy officers (CPOs).

In the case of Wells Fargo, CEO Richard Kovacevich gave Jim Campbell, the president of Wells Fargo Bank Minnesota, the responsibility of getting the institution more involved. After Jim Campbell's retirement, his successor and brother, Jon Campbell, continued the tradition of involvement in local philanthropy. Susie Davis, senior vice president of Wells Fargo Home Mortgage, encourages her 7,000 employees to help needy residents of the Phillips Neighborhood where the mortgage division is located.

Ask CEOs who are involved in the community to recruit uninvolved CEOs. Approach CEOs one by one. A team of former CEOs and present CEOs should urge uninvolved or new CEOs to invest in the local community. Reach out to CEOs and ask them how leaders in the nonprofit sector can help them get involved.

Ask CEOs to donate themselves, not just on behalf of the company. Personal gifts from CEOs are just as important as corporate gifts. When you call on CEOs for a gift, they often say, "We just gave." The nonprofit should tactfully say, "No, the corporation gave. I was asking about your personal gift."

Educate new CEOs about the benefits of community involvement. Giving often is good business. For example, Cargill doesn't give bribes, but it often contributes to community needs. Then, if Cargill needs something from the mayor or another local official, a friendly relationship already is established.

Approach CEOs with an understanding of their motivations for giving. The primary reasons that motivate major donors can be classified into seven philanthropic personalities: (1) Communitarian, (2) Devout, (3) Investor, (4) Socialite, (5) Altruist, (6) Repayer, and (7) Dynast (Prince and File, 2001). Conversations with my colleagues corroborated these categories. They said the reasons for giving include *nobles oblige*, peer pressure, moral obligation, the common good, guilt, wanting to help, psychic income, joy of giving, and *Tikkun Olam* (Hebrew for "repair the world").

Connect giving with the mission of the company. CEOs are more responsive if philanthropy is related to their markets and where their employees reside. Cause-related marketing can help counteract stockholders' objections to giving away "their money." However, if the benefit to the company is too direct, the deduction will come under IRS scrutiny.

Build giving into how corporations and CEOs are measured. Encourage corporations and their boards of directors to build *community involvement* into performance appraisals. When possible, the corporate culture should shift more toward the common good and away from short-term profits. Giving two percent of profits should be put into budget cycle discussions.

The Seven Faces of Philanthropy

1. **The Communitarian**	Trying to make the community better because we all do better when we all do better. According to the research, 26.3% of major donors have this as their primary reason for giving.
2. **The Devout**	According to the research, 20.9% of major donors had God's will as their major motivator.
3. **The Investor**	Doing good work makes good economic sense. Tax deductions and control of where the money goes motivate 15.3% of wealthy donors.
4. **The Socialite**	Giving is fun. It is a way of meeting people and broadening your scale of influence. Socializing is the primary motivator of 10.8% of wealthy donors.
5. **The Altruist**	Gives to help others – usually out of compassion for the less fortunate. Altruism motivates 9% of givers.
6. **The Repayer**	Doing good in return for good they have received from an institution. Medical and educational institutions benefit most from this type of philanthropy (10.2% for the wealthy givers).
7. **The Dynast**	Doing good is a family tradition. Not only the Rockefellers and the Daytons have it in their families, but 8.3% of the wealthy listed family tradition as their primary reason for giving.

(Prince and File, 2001)

Corporate Giving Among Minnesota Companies with 500+ Employees (% of companies)

Average rate of giving is two percent of profits.

96% gave cash.

87% say public recognition for giving is very important to Minnesota businesses.

67% have formal giving programs.

(Building Business Investment in Community, 2002)

Most Generous Minnesota Companies Based on Total Cash and Product Giving (2002)

Target Corporation	$87,200,000
3M Corporation	$43,721,000
Best Buy	$16,603,101

(Larose, Krause, and Wilhelm, 2003)

PPL General Store grand opening. Joe is far left. Then-Minneapolis mayor Don Fraser is far right.

HUMPHREY INSTITUTE'S ROLE IN PHILANTHROPY

The Humphrey Institute should be a *servant leader* in the world of philanthropy, acting as a guild for the nonprofit sector in the way that Carlson School of Management acts as a guild for the business community. The Humphrey Institute's Center for Leadership of Nonprofits, Philanthropy, and the Public Sector should be a catalyst, bringing issues and goals to the forefront.

I consulted my panel of experts to gather their thoughts on *what* the Humphrey Institute should do in philanthropy and *how* it should get there. Following is a summary of their recommendations.

Consult with leaders of the nonprofit sector to help shape the Humphrey Institute's role. Conduct a formal market survey of the local nonprofit world—institutional and family foundations, wealthy donors, wealth managers, philanthropic corporations, public sector professionals, and, most importantly, the nonprofit executives who working in the community. Uncover their ideas for how the Humphrey Institute could help nonprofits be more effective and better serve the needs of their clients.

Recruit philanthropists, foundation leaders, and nonprofit managers to serve as advisers. Experts in the field of philanthropy will help the Humphrey Institute stay on course and provide the greatest possible value to nonprofits and the community.

Do not siphon funds away from nonprofits. The Humphrey Institute should avoid the normal funders (family and institutional foundations) and get funding from corporations and wealthy people who are currently *under giving*.

Be a center for discussing nonprofit issues and crafting solutions. Don't be afraid to create debate and add value to the discussion of current issues. Hold conferences on society's hard-to-solve problems. Offer seminars for legislators, nonprofit and foundation executives, and receivers of services. Sponsor lecture series with big names, for example, Kofi Annan, George Soros, or Ted Turner.

Connect with the philanthropic community. Audiences should primarily be *givers* as opposed to students. Attract givers with practical topics such as how to build a solid relationship with a nonprofit, how to end your life well with philanthropy, or how to prepare your children for philanthropy.

Ensure that what you do is high quality and practical. The Humphrey Institute should demonstrate high quality in its programs, classes, products, and research. Its efforts should have practical applications for philanthropists, funding agencies, and nonprofit service providers.

Develop a curriculum that fosters philanthropy. The goal should be to create more givers, or at least turn *undergivers* into *great givers*. Tufts University has a 10-week course for art lovers. The Humphrey Institute could do the same for other causes. A dynamic curriculum could result in a rich vein of philanthropic leadership for the whole country.

Form partnerships. Engage in partnerships with forces both inside and outside the University. Promote synergies between the One Percent Club, the Keystone Club, United Way, and United Arts Fund. In partnership with the Carlson School of Management, the Humphrey Institute could advance the idea that capitalism carries with it an obligation to give. The Institute also should be careful not to duplicate what the University of St. Thomas or other local educational institutions are doing.

Create a central resource for philanthropic questions. The Humphrey Institute should be a resource for the study of philanthropy and the nonprofit sector. It should disseminate information and provide expertise—even have a telephone hotline to answer nonprofit questions.

Support life-long learning about nonprofits and philanthropy. Get off campus and into the community with researchers and seminars. Philanthropic learning should not necessarily end with a degree. The best professionals are those with life experiences and community experiences. Educate the broad population on the social needs in our community.

Conduct original research. Do case studies comparing the effectiveness or "return on investment" of nonprofits. Identify ways to evaluate the strategies used by nonprofits and funders.

Lastly, I want to address how we can improve the effectiveness of the nonprofit sector. How should *philanthropists* support nonprofits? How should the *philanthropoids* (the managers of the money and foundations) act? And finally, how should the *philanthropests* (those seeking the money to do the work) act?

Ensure that the majority of philanthropic dollars reach beneficiaries. As we trace philanthropic dollars from givers (individuals and corporations), to brokers (foundations), to nonprofits, and finally to beneficiaries (e.g., the disabled or museum visitors), we must be careful not to have too much of the money go to the process and only a small amount trickle down to beneficiary.

Shine light on *everyone's* budget. We're dealing with tax-deductible money here, so the public has a right to know. There is nothing better to avoid waste and fraud than the fear that everyone may see your actions in the morning paper. If the budgets of family foundations, community foundations, and corporate giving programs were open to public inspection, executives would be far more careful to use the dollars wisely.

Debate, but debate civilly. Everyone, including myself, complains that the other person is too "thin-skinned," and this prevents honest, open dialogue and better conclusions. But when someone criticizes me, especially in a public forum, I get very defensive—my reputation is threatened. This results in "Minnesota nice." But Minnesota nice really isn't very nice, because it often kills debate and better thinking.

Strike the proper balance between planning, strategizing, and taking action. Foundation executives and wealthy donors are very smart and love to strategize and talk about the problems. Meanwhile, the needs of the community are crying for action. Planning and research are necessary but they should not be done at the expense of providing services.

Strike an equitable balance between funding nonprofits that serve the rich vs. the poor. I am not anti-art or anti-rich people, but I'm often bothered by the fact that I see huge endowments for symphonies and Ivy League colleges, but the nonprofits serving the homeless and the low-income music lovers are hobbled by lack of funding. Proportionality matters. For example, Yale and Harvard each have endowments of more than $10 billion.

PHOTO BY JEFFREY GROSSCUP

Fund nonprofits according to their results, not according to their size. I've found that large funders consider universities or hospitals as so big that they wouldn't think of giving them less than $500,000; whereas, when funders are giving to a small theater or school, they think of giving $500. This makes no sense to me.

Let the market and government perform their jobs. The nonprofit sector can't solve all the problems. The government and for-profit sectors especially need to help solve long-term and pervasive problems (e.g., medical coverage for the elderly, living wages, public health, and cleaning up the environment). I've observed some businesses that are willing to contribute to building affordable housing, but also are very intent on keeping the bottom-rung workers earning the minimum wage. If the wages were better at the bottom levels, subsidies may not be needed for affordable housing or food stamps. Efficiency or economies of scale are needed.

Add clarity to the nonprofit sector. If the needs were lined up against different funding sources, we could better determine what should be done. For housing: (1) define the needs the homeless, the working poor, and the disabled; (2) identify available resources (e.g., HUD, city and county funds, the capacity of nonprofits); and (3) match the problem with available resources. Everyone could better think of their "fair share" and economies coming from partnerships across the different sectors.

Take big steps to narrow the income gap. Our society is now structured to benefit the top five percent often at the expense of the bottom 40%. Every Census study and economic analysis shows a growing chasm between the rich and the poor. Elimination of the estate tax, reduction of the top income tax levels by 10%, reduction of dividend and capital gains taxes, and sheltering of $500,000 in profits on the sale of residences all favor the wealthy. Such items as the Social Security tax, sales taxes, and other ubiquitous tolls fall most heavily on the poor.

Involve beneficiaries in the solution. Wherever possible, the clients of nonprofit services should be active, not passive, participants. For example, nonprofit programs should allow beneficiaries to have a choice in the homes where they live, the schools their children attend, and the healthcare they receive.

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NAME OF ORGANIZATION	WEBSITE ADDRESS	TYPES OF INFORMATION, PUBLICATIONS
AAFRC Trust for Philanthropy (American Association of Fundraising Counsel)	www.aafrc.org	Ethics, excellence and leadership in advancing philanthropy. *Giving USA: Annual Report on Philanthropy.*
The Chronicle of Philanthropy	www.philanthropy.com	Weekly newspaper for nonprofits and philanthropists, *Nonprofit handbook.*
Community Loan Technologies	www.communityloantech.org	Information regarding acquisition of financial assistance for nonprofits, e.g., Minnesota Nonprofits Assistance Fund. Publications on financial health of nonprofits including *From Spreadsheets to Streetcorners.*
The Foundation Center	www.fdncenter.org	Information on philanthropy geared toward grantseekers includes giving guidelines for private and community foundations throughout the country.
Give Back Day	www.givebackday.com	Database information for more than 825,000 nonprofits. Sponsors annual “give back day” encouraging people to give back of their resources.
Independent Sector	www.independentsector.org	Coalition of leading nonprofits, foundations and corporations toward strengthening sector. Publication examples: *Nonprofit Almanac & Desk Reference*; *Giving in Tough Times*; and *Giving and Volunteering in the U.S.*
Internal Revenue Service	www.irs.gov	Tax forms filed by charitable organizations, governing rules for organizations.
Minnesota Council Foundations	www.mcf.org	Information on foundations, grantseeking and grantmaking in Minnesota. *Giving in Minnesota* report, *Guide to Minnesota Grantmakers.*

NAME OF ORGANIZATION	WEBSITE ADDRESS	TYPES OF INFORMATION, PUBLICATIONS
Minnesota Council of Nonprofits	www.mncn.org	Information, education, research, volunteer and job opportunities for MN nonprofits. *Principles and Practices for Nonprofit Excellence.*
National Center for Charitable Statistics	www.nccs.urban.org	Databases on nonprofits throughout the country, includes giving statistics by geographic areas.
National Center for Family Philanthropy	www.ncfp.org	Research and educational materials for families and individuals engaged in philanthropic giving.
National Committee for Responsive Philanthropy	www.ncrp.org	Watchdog, research and advocacy organization working toward helping disadvantaged populations by promoting public accountability among foundations, corporations and individuals. Publishes *Responsive Philanthropy.*
One Percent Club	www.onepercentclub.org	Association of individuals committed to meeting minimum annual giving standards of 1% of net worth or 5% of income, whichever is greater, to charities of their choice.
Philanthropy Roundtable	www.philanthropyroundtable.org	Association of grantmakers committed to a principle of promoting private action as the best way to meet many societal needs. Publishes *Philanthropy Magazine.*
Project for Pride in Living	www.ppl-inc.org	Nonprofit assisting low and moderate income individuals toward self-sufficiency through addressing job, housing and neighborhood needs.
TPI – The Philanthropic Initiative, Inc.	www.tpi.org	Nonprofit consulting firm organized to help donors maximize impact of their philanthropic gifts.

PHOTO BY LISA MALCHOW

Appendix A. Nonprofit and Philanthropic Advisers

Following are the individuals who contributed their ideas about the questions addressed in the Fellowship.

NAME		TITLE	AFFILIATION
1. Doug	Baker	Retired VP, HR	IDS-American Express
2. Monroe	Bell	Retired	Clergyman
3. Ford	Bell	President	Minneapolis Heart Institute Foundation
4. Joe	Cavanaugh	Executive Director	Youth Frontiers, Inc.
5. Mike & Ann	Ciresi	Partner	Robbins, Kaplan, & Ciresi
6. Burt	Cohen	Publisher Emeritus	*Mpls. St. Paul Magazine*
7. Pat	Cummings	Retired CEO	Jay and Rose Phillips Family Foundation
8. Humphrey	Doermann	Retired CEO	Bush Foundation
9. Mike	Ducar	Retired Security Analyst	IDS-American Express
10. Ann	Duff	Retired	Philanthropist
11. Barbara	Forster	Retired	Banker
12. Chuck	Garrity	President	Garrity & Associates
13. Tim	Geoffrion	President	Hope Youth Ministries
14. John	Hartwell	Retired CEO & Owner	Land-0-Nod Mattress Co.
15. Rosalie	Heffelfinger Hall	Retired	Philanthropist
16. Jim	Howard	Retired Vice Chair	Cargill Corporation
17. Jay	Jacobson	CEO	Shalom Foundation
18. Steve	Leventhal	CEO and Owner	Wholesale Imprints and Promotions
19. Tom	Lowe	Chairman	Lyman Lumber Company
20. Bob	Peterson	Director of Planned Giving	U of M Foundation
21. Steve	Rothschild	Founder	Twin Cities RISE! & Yoplait
22. Jodi	Schoenauer	General Manager	Calhoun Beach Club
23. Tim & Kari	Sellner	Owners	Sports Footwear
24. David	Sherman	President	Baker Foundation
25. Noa	Staryk	Chair McKnight Foundation	Board of Directors
26. Phil	Von Blon	Retired Broker	Alliance Capital
27. Win	Wallin	Retired CEO	Medtronic, Inc.
28. Thomas	Warth	Founder	Books for Africa
29. E. Thomas	Welch	Partner	Resource Trust
30. Mike	Winton	Owner and CEO	Winton Partners

Appendix B. Philanthropy by the Numbers

Size of the Nonprofit Sector

In 1998, the nonprofit sector made up 5.9% of all U.S. organizations. At the same time, 94% of all organizations belonged to the business sector, with the government sector making up the remaining 0.3%. Within the nonprofit sector, about 75% of the organizations could be included in what is referred to as the *independent sector.* The independent sector includes 501(c)(3) and 501(c)(4) organizations, the two major groups of tax-exempt organizations that may receive tax-deductible contributions from individuals, corporations, and foundations. Commonly, 501(c)(3) organizations are referred to as *charitable organizations,* while those in the 501(c)(4) category are referred to as *social welfare organizations,* (Weitzman, et al., 2002).

In 1998, the IRS recognized 27.7 million operating organizations in the United States. Of these, 1.6 million were nonprofits, with 1.2 million belonging to the independent sector. Accurately capturing the number of organizations, however, is quite complex due to the diversity of the organizations. For example, while churches, subordinate units, and conventions or associations of churches qualify as 501(c)(3) organizations, these organizations are not required to register with the IRS and are largely undercounted in this category (Weitzman, et al., 2002).

In 1998, the nonprofit sector accounted for $461 billion, almost seven percent of the annual national income (Weitzman, et al., 2002).

Sources of National Income

	1997		1998	
	INCOME (BILLIONS)	PERCENTAGE	INCOME (BILLIONS)	PERCENTAGE
Nonprofit national income	$461	6.7%	$486	6.7%
For-profit national income	$5,461	79.7%	$5,812	80.0%
Government national income	$934	13.6%	$969	13.3%
Total national income	$6,856	100%	$7,267	100%

(Weitzman, et al., 2002)

Note: National income is the total net income earned in production. Unlike GDP, it excludes depreciation and other allowances for business and institutional consumption of durable goods, and indirect business taxes.

Patterns of Giving

There are ten major categories of nonprofits: arts, culture, and humanities; education; environment and animals; health; human services; international and foreign affairs; public, societal benefit; religion-related; mutual membership benefit; and unknown organizations (Clotfelter and Erlich, 1999).

Causes and the Support They Garnered

	2002 Total Private Support (millions)	Percentage Change Over 2001	Organizations on the Philanthropy 400*
Education	$14,903	-3.3%	131
Human services and youth	$8,177	15.0%	27
International	$4,559	10.4%	39
Health	$3,223	-22.7%	19
Hospitals and medical centers	$2,604	1.8%	30
United Ways	$2,058	28.6%	29
Religious groups	$2,040	16.5%	26
Community foundations	$1,689	-5.4%	27
Environmental and animal-related groups	$1,444	4.5%	13
Corporate-sponsored charitable funds	$1,283	-21.5%	6
Jewish federations	$1,229	7.5%	15
Arts and culture	$1,146	-26.5%	16
Public-broadcasting groups	$651	-7.5%	7
Public affairs groups	$250	18.0%	5
Other groups	$1,701	5.2%	10
Total	$48,959		400

Note: Total Private Support includes cash and in-kind donations from individuals, foundations, and corporations.

*The Philanthropy 400: U.S. charities that raised most in donations from individuals, foundations, and corporations.

Source: *Causes and the support they garnered*. 2003. *Chronicle of Philanthropy* (October 30).

The majority of individual givers (60%) donate to religious institutions (Independent Sector, 2003). The breakdown for how individuals contributed to nonprofits in 1998 is as follows:

Religious organizations	60.0%
Human services	9.0%
Health	6.5%
Education	6.4%
Youth development	4.9%
The arts	3.3%
The environment	3.2%

Giving in Minnesota

Between 2000 and 2001, contributions to nonprofits from Minnesota foundations and corporations increased 10.3% to $920 million (Minnesota Council on Foundations, 2003). Charitable giving from Minnesota foundations and corporations represents only 22% of the total giving. Individuals in Minnesota gave an estimated $3.2 billion to charity in 2001—a four percent decrease from 2000.

Minnesota Charitable Giving

	2000 (MILLIONS)	2001 (MILLIONS)	PERCENT CHANGE
Grants from Minnesota foundations and corporations	$834	$920	+10.3
Individual contributions	$3,255	$3,218	-3.9
Total	$4,089	$4,138	

(Minnesota Council on Foundations, 2003)

The *Chronicle of Philanthropy* (May 1, 2003) compared annual giving for counties throughout the United States. Following are some of the highlights of Minnesota giving. Giving was reported as a percentage of *discretionary income*, defined as the amount of money left over after basic living expenses (such as housing, taxes, food, transportation, and clothing) are paid. It should be noted that one's own *discretionary income* could be a subjective judgment. These numbers do not reflect giving as a percentage of total annual income per individual or household.

As demonstrated in the table below, residents of Isanti County and Anoka County gave the most as a percentage of *discretionary income*.

Giving as a Percentage of Discretionary Income for Four Minnesota Counties (1997)

COUNTY	AVERAGE % DISCRETIONARY INCOME TO CHARITY	AVERAGE DISCRETIONARY INCOME	AVERAGE CHARITABLE DONATION	CHARITIES PER 1,000 PEOPLE
Isanti	12.0%	$16,983	$2,042	2.4
Anoka	10.2%	$19,019	$1,932	1.4
Hennepin	8.3%	$52,473	$4,370	3.8
Ramsey	9.2%	$37,586	$3,454	4.3

Source: *Chronicle of Philanthropy, May 1, 2003*

The *Chronicle*'s study of giving by city, county, and state was based on Internal Revenue Service records of Americans who earned $50,000 or more and itemized their deductions, representing 18% of all U.S. taxpayers and accounting for nearly 54% of all money earned in the nation. Since people who do not itemize do not report their donations, little reliable data are available on people who make less than $50,000.

To provide a comparison, the Humphrey Institute researched individual giving as a percentage of adjusted gross income (AGI) according to the Internal Revenue Service for Minnesotans. Giving as a percentage of AGI ranged from 2.53% for Anoka County households to 3.34% for Hennepin County households that itemized returns. Using the One Percent Club's recommendation that households contribute five percent of income, Minnesotans are falling short even in the most generous counties.

Giving as a Percentage of Adjusted Gross Income (AGI) for Households in Four Minnesota Counties (1997)

COUNTY	AVERAGE % AGI TO CHARITY	AVERAGE AGI	AVERAGE CHARITABLE CONTRIBUTION	NUMBER OF ITEMIZED RETURNS
Isanti	2.97%	$58,764	$1,744	4,109
Anoka	2.53%	$66,176	$1,677	56,006
Hennepin	3.34%	$101,620	$3,399	219,218
Ramsey	3.30%	$82,068	$2,712	85,328

Source: McIntyre, Teri. 2003. Unpublished analysis. Minneapolis: Humphrey Institute.

Note: Average AGI represents AGI for itemized returns in which charitable contributions were reported. Itemized returns include only those in which charitable contributions were reported. For all four counties in this comparison, average AGI was higher for returns in which charitable contributions were reported than in those in which no charitable contributions were reported.

Information from the National Center for Charitable Statistics: http://nccsdataweb.urban.org/NCCS/Public/index.php, November 10, 2003.

How does Minnesota compare to the nation in giving?

- Minnesotans ranked 13th in average charitable contributions per return (for returns in which filers claimed charitable contributions).
- Minnesotans ranked 17th in average charitable contributions per return as a percentage of adjusted gross income per return (a measure of how much individuals give relative to their potential for giving based on their income).
- Minnesota residents rank 16th in a simple ranking of each state's total 1999 charitable deductions, with $2.4 billion—an 11 percent increase over 1998.

Source: National Center for Charitable Statistics: http://nccsdataweb.urban.org/NCCS/Public/index.php, November 10, 2003.

Appendix C. Current Legislation

An investigation of the Charitable Giving Act of 2003 (H.R. 7), a bill currently in the House Ways and Means Committee, became part of the Hill Fellowship because we wanted to understand problems affecting philanthropy. Some forces in the federal government were putting pressure on family foundations, through the proposed H.R. 7, to pay out the entire five percent of net assets, exclusive of administrative costs. Most foundations resisted the change and were able to convince the House and the Senate to modify the five percent requirement and make a few benign changes instead. However, administrative charges incurred by family foundations are a legitimate area of discussion, and the federal government and general public are likely to raise the subject again.

Here are some thoughts I uncovered from conversations with my colleagues and from two discussion groups with family foundation leaders.

Positives of a Five Percent Payout Requirement

1. Requiring a five percent payout will force foundations to be more efficient.
2. The opposing view, the minority view, holds that foundations should go out of existence. New wealth is always being created; witness the Gates and Hewlett-Packard foundations. Thus it is fitting that the older foundations, such as the Rockefeller and Ford Family foundations, go out of existence.
3. When you give $20 to your foundation, $19 goes into the stock market and $1 goes to work in the community. Now, foundations want to allow administrative charges so that even less than a dollar goes to work in the community. There are urgent needs in the community and lost opportunities when those needs are neglected—witness the spread of malaria, SARS, AIDS, and the lifelong suffering of a child who isn't educated. We spend money in three basic ways: as a debtor (e.g., funder of the war in Iraq), as cash and carry (e.g., how we buy groceries), or as a creditor (e.g., foundation spending). There is no urgency in "creditor" spending, yet the community has urgent needs, some of which can save huge dollars if the funding comes quickly, e.g., stopping SARS.
4. The drive to make foundations bigger and bigger while the needs get greater and greater is immoral. Also, first-class travel, excessive top management salaries, high per diems for trustees, and luxurious office spaces should be clamped down on. Foundations should hold themselves to the same strict standards to which they hold the recipient nonprofits.
5. Foundations and philanthropists should make the world better now, not 1,000 years from now. Let each generation try to make the world better while they are alive.

Negatives of a Five Percent Payout Requirement

1. Family foundations should be able to charge administrative expenses within the five percent payout requirement. Otherwise these foundations will choose to be *operating* foundations where the rules are different. This would not be a desirable outcome, because there is a benefit to having nonprofits doing the work distinct from their funders with oversight powers.
2. Administrative costs are a necessity if funders are to give out money prudently. If costs are not allowed but incurred, it will force the foundation to go out of business since there is ample proof that paying out more than five percent annually will force the depletion of assets and the eventual demise of that foundation. This position assumes the right of a funder to exist in perpetuity.
3. If H.R. 7 passes, foundations will be more conservative because they will tend to have less staff and fund "safer" projects.
4. There was sympathy for what the federal government wants to do, but the cure—more regulations—may be worse than the disease. Fostering "best practices" and regular audits is preferable to most rules.
5. There is not a great deal of abuse. Punish the offenders, not everyone. There is a "culture of opulence" with some foundations and they should be criticized publicly.
6. Compromise and pay out four and one-half percent and keep administrative costs to five percent.
7. Government intrusion is generally bad.
8. If a version of H.R. 7 passes, it will disproportionately hurt smaller foundations because smaller foundations tend to need a greater percentage of administrative costs. Then they will be forced out of existence in five, 10, or 20 years, depending on how well their investments do. Larger foundations will be more adept at adjusting to the requirement.
9. There should be seminars on *ethics* to diminish administrative excesses.
10. There is great value is having a large number of small foundations on one side and a large number of small nonprofits on the other side asking for grants. H.R. 7 would disrupt this well-functioning dynamic.
11. Newspaper investigations, attornies general, and the IRS should step up their oversight responsibilities.
12. If the estate tax sunsets, then new foundations won't be created. Therefore, it's necessary to keep the old ones in perpetuity.
13. The value of foundation giving is that more *strategic thinking* is done on the issues.

The House passed H.R. 7 on September 17. The Senate must now take action to send the bill to a House–Senate conference committee, which will resolve differences between H.R. 7 and the Senate Care Act (S. 476). In its current form, H.R. 7 allows administrative expenses directly attributable to direct charitable activities; grant selection; grant monitoring and administration; and compliance with federal, state, or local law. Furthering public accountability of the private foundation may be treated as qualifying distributions. Compensation paid to disqualified persons that exceeds $100,000 annually and expenses incurred for air transportation that is not coach-class commercial travel may *not* be treated as qualifying distributions.

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Appendix D. Advocacy Giving

I've always been fascinated by how two nonprofits, supposedly both fighting to improve the common good, can be on different sides of an issue. This dynamic affects our laws and our for-profit habits. Nonprofits can advocate for the right to carry guns or have gun control laws—to be for a business development or for the environment and against a particular business development. Should contributions to advocacy nonprofits be tax-deductible? There's a fine line.

Among my 30 advisers, funding of advocacy nonprofits was considered suspect at best. My findings must match the national feeling since only one percent of foundation giving goes to advocacy groups (Ostrander, 1995, 3) Advocacy giving is sometimes called "social change giving." In fact, one of the leading advocacy groups, *Haymarket People's Fund* of Boston, has as its motto: "Change, not charity" (Ostrander, 1995, 38).

Overall, my colleagues were leery of advocacy. Their views fell into three distinct categories:

1. The majority opinion was that the voluntary sector should avoid advocacy and stick to providing services. Advocacy groups, such as MADD, gun control, pro-life/pro-choice, death penalty, and civil rights, belong in the government sector. The voluntary sector should stick to providing services.
2. The other extreme was very pro-advocacy, favoring change rather than charity. Their view was that the small nonprofit dollars could be leveraged with bigger government and for-profit dollars.
3. In the middle were those who said that nonprofits already can legally advocate or lobby using about 20% of their budget. That's about right.

A few colleagues praised advocacy giving for the following reasons:

- It brings out one's passions.
- Issues such as drunk driving, civil liberties, abortion, handguns, and the death penalty are important issues and need the full range of debate.
- As long as the nonprofit is educating the public about a particular passion and not directly lobbying a politician as a special interest group, it should be encouraged.
- The leveraging effect it has on the other two sectors is significant.
- If they take a holistic position rather than a narrow self-interest, advocacy groups can be helpful.
- Some do thorough policy work, e.g., Cato Institute, which is helpful to clarify political thoughts.
- It is helpful when responding to a need.

Appendix E: Nonprofit Management Programs

Just as the Hubert H. Humphrey Institute of Public Affairs develops its Center for Leadership of Nonprofits, Philanthropy, and the Public Sector, programs in nonprofit management education throughout the country continue to emerge and contribute to a growing trend.

The field of nonprofit management has grown from 16 to 180 college-or university-based programs in the last 15 years (Stone, 2001). Education in nonprofit management has been added into undergraduate and graduate curriculums across the country. For undergraduates, 74 schools offer at least one course in nonprofit management. Opportunities are even greater in seeking nonprofit management education at the graduate level, with 130 colleges and universities offering at least one course within a graduate department and many offering courses or programs in public management as well. This year, the first-ever doctoral program in philanthropic studies was announced at Indiana University.

Overall, there is great diversity among these programs. Below are a few of these programs, which provides a sense of the diversity of programs and options for those interested in studying the field of philanthropy.

College or University	Department	What's Offered
Case Western Reserve University Management www.cwru.edu	Mandel Center for Nonprofit Organizations	• Master of Nonprofit Organizations • Certificate in Nonprofit • Customized training programs in nonprofit management • Youth Philanthropy and Service • *Nonprofit Management and Leadership* – Subscription-based Journal
Hamline University www.hamline.edu	Graduate School of Public Administration	• Master of Arts in Public Administration, doctorate and certificate study offered • Master of Arts in Nonprofit Management
Harvard University www.harvard.edu	John F. Kennedy School of Government: Hauser Center for Nonprofit Organizations	• Nonprofit Sector Concentration in Masters Programs • Joint Program on Religion and Public Life • Program on Philanthropy, Civil Society, and Social Change in the Americas • Major research projects, including: Nonprofit Sector and Public Policy, Philanthropy and Social Investing, Nonprofits in international Political Economy and in Developing Countries

College or University	Department	What's Offered
Indiana University www.indiana.edu	Center on Philanthropy	• Master of Public Affairs—program in Nonprofit Management • Master of Arts and Ph.D. in Philanthropic Studies • Executive Master's Programs • The Fundraising School—only one of its kind at university level • Research and publications
Minnesota State University Moorhead www.mnstate.edu/home	Graduate Program in Public, Human Service, and Health Administration	Graduate concentration with courses in: • Public and Nonprofit Financial Management • Leadership in Public and Nonprofit Sectors
St. Mary's University www.smumn.edu	Graduate and Special Programs	• Master of Arts in Philanthropy and Development • Graduate concentration
University of St. Thomas www.stthomas.edu	Center for Nonprofit Management	• MBA degree in College of Business • Customized on-site training programs • Seminars including but limited to: Social Entrepreneurship, Fundraising and Finance • CEUs offered: Community Leadership, Ministry Leaders, Executive Director Leadership
University of Southern California www.usc.edu	Center on Philanthropy and Public Policy	• Master of Public Administration • Master of Public Policy • Research examples include: Health Care Philanthropy in California; Giving, Volunteering, and Social Capital in Los Angeles • Publication examples include: *California Foundations: A Snapshot; What's "New" about New Philanthropy: A Forum Summary; California Foundations: Trends and Patterns*
Yale University *www.yale.edu*	*Yale Divinity School: Program on Nonprofit Organizations*	*• Research examples include: Religion and Public Policy; Management and Leadership in Religious and Faith-Based Entities; Corporate Responsibility and Contributions Practices* *• Cases in Nonprofit Governance*


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