

2010 Law School Development Conference X

**Implications of the Economy on
Development Practices:
Adjusting Long-Term Strategy**

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GG+A
Grenzebach
Glier and
Associates

John J. Glier

President and Chief Executive Officer
Grenzebach Glier and Associates

Opening Comments

- Thank you, Trishana (Bowden)
- I'm delighted to be here with all of you once again this year
- The beauty of this setting is matched only by the hard work that seems to go on in and around these sessions. It's always been, in my view, one of the more useful Development conferences for Deans and their Advancement colleagues. In fact, I have often cited it as an example to other professional school leaders
- My task this morning, I believe, is to paint the big picture, and not to talk so much about fundraising within your schools; you have many other sessions that will do that superbly
- I plan to make some remarks about our economy and Development practices, and then move to a Q & A format for the rest of our time

Topics For Today's Discussion

- Let us start with a few remarks about the current landscape in fundraising...

The Philanthropic Landscape

- I will then touch upon...

The Impact of This Recession

and some of the fundraising lessons we seem to have taken from this experience

- That will lead me to some rather specific remarks about...

High-Performance Fundraising Organizations

- And finally, a comment or two on what I think still works...

What Still Works: The Best Long-Term Strategy

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The Philanthropic Landscape

The Philanthropic Landscape

- The economic downturn of the last several years has created the single largest challenge to fundraising in Higher Education in fifty years
- It touched every part of our economy, and reached every corner of Higher Education; much more serious than the five previous American economic recessions
- At the small gift level, consumer retrenchment, unemployment (we lost over 8 million jobs), and constituent anxiety have led to lower average gifts
- At the large gift level, market volatility and asset losses (we lost \$14 trillion in household wealth) have slowed decision-making to a standstill; the pipeline of major gift discussions is weaker than it has ever been in Higher Education
- In the next week, Giving USA will report that charitable donations nationally fell 3.6% in calendar year 2009, after having fallen 5.7% in 2008 (steepest decline in 50 years)
- According to the latest report by researchers at the Center on Wealth and Philanthropy at Boston College, individual charitable giving fell 4.9%

The Philanthropic Landscape

- Amongst our leading Law Schools, 15 of the top 22 had declines in overall giving last year, from as little as 1% to declines as steep as 50%! For most that were up, it was only slightly—although there are a few of our colleagues that had a great year last year
- GG+A conducted two benchmarking studies involving 15 leading Law Schools—public and private—who experienced an average decrease in total private support of 17.9%
- Others have quite surprisingly stayed the course; we're still looking hard at the reasons some institutions seem to prevail over such a flood of economic bad news...I'll come back to this issue in a moment, but I can't help but note success like Fordham Law's campaign achievement this past year in a very tough economy, in the epicenter of our challengers in New York City
- While many of our high-profile comprehensive campaigns in Higher Education have struggled to stay the course, most have stalled with respect to the very largest gifts that drive their ambitious goals
- Annual funds and reunion programs experienced similar downturns—in some cases, quite dramatic drops in participation and dollars

The Philanthropic Landscape

- Most institutions are reporting cash totals for 2009 that are at best flat, or down relative to previous years; pledge commitments at most universities have significantly declined from FY08 levels (and have not yet begun to rebound)
- Fiscal year 2009 data from the Council for Aid to Education tells us that giving has dropped 11.9% across colleges and universities; total giving to Carnegie I Private and Public Institutions fell 9.8% on average (the top 20 fundraising universities fell nearly 14%)
- Over two-thirds of the institutions that participate in the Council for Aid to Education survey reported declines in private gift support in both 2008 and 2009
- The nation's top 400 philanthropic organizations saw a median decline in giving of 9% in 2009

The Philanthropic Landscape

- The Foundation Center reports grant-makers cut giving by an estimated 8.4% in 2009, by far the largest decline in foundation giving ever tracked by the Foundation; early findings suggest that 2010 foundation giving will remain flat and will likely show modest growth in 2011
- Given these numbers, a decline in data regarding the biggest gifts should not surprise us; The Chronicle of Philanthropy reported at year end 2009:
 - The 10 largest gifts in 2009 totaled \$2.7 billion versus \$8 billion in 2008
 - Seven gifts of \$100 million+ in 2009, versus 15 gifts of that size in 2008
 - Gifts of \$1 million+ totaled \$3.7 billion in 2009, versus \$12 billion in 2008

The Philanthropic Landscape

- Endowments across Higher Education reported an average decline of 22.3% in their market values in 2008; the market rebound over the past year of nearly 60% has obviously brought many of those endowments back
- Gifts for capital purposes (including endowments), not surprisingly, suffered the steepest declines (a similar decline we clearly saw in previous recessions – 31%, 37%)
- We know **alumni participation** nationally continued to erode, in its long slide, from 11% to 10%; just as importantly, the **average alumni gift** across the sector dropped by nearly 14% last year

The Philanthropic Landscape

- The Chronicle of Philanthropy predicts that “2010 could be far more painful for charities and the people they serve than any other year they have known; 54% of those polled expect to raise less money in 2010.”
- For 2010 in Higher Education, we expect to see a negative “lag” effect, similar to the data we have seen in several previous recessions
- Big gifts are slow to return; major gift “pipelines” emptied in 2009, as large gift discussion slowed to a trickle; it will take time for us to regain any significant momentum

The Philanthropic Landscape

- In short, we are describing “flat” as the new “up”
- Bright spots include reports that year-end stock gifts in 2009 were up dramatically over 2008, and money seems to be flowing back into Donor Advised Funds
- We have also seen some interesting reports of a significant rise in fundraising in the first three months of 2010 (11%) for a select group of institutions, **and** a job market for fundraisers that is beginning to thaw

Giving In America

- Just to step back for a moment...as context, *giving* in America encompasses over \$300 billion in cash, over 2% of our GDP, and is broadly diversified across every sector of civil society; Education is 15% of that market (\$45 billion), and Higher Education 10% (or \$30 billion)
- It is a growth enterprise: 2.8% compound annual growth rate for more than 50 years (3.1% in the broad education sector)
- By contrast, total *giving* to Higher Education has grown at a **5.5%** compound annual growth rate (Carnegie 1 research universities have grown at a **6.6%** rate), driven by a similar level of growth (5%) in **alumni** giving
 - All this, of course, against the backdrop of a 2.31% increase in the Consumer Price Index over the same 15-year period (higher education institutional budgets, by the way, grew at a 5.49% rate)
- So, *giving* has demonstrated remarkable resilience across many different economic and political landscapes, increasing in every year except one – 1987, until calendar 2008

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The Impact Of This Recession

The Impact Of This Recession

- Many people have continued to give during this recession, focusing carefully upon the institutions where they've been engaged and committed in the past
- Well-established nonprofits, with a diverse constituency of donors (age, geography, affinity), especially those that are engaged in proactive "campaigns," are faring better than others
- Some sectors, such as Religion, seem to be almost recession-proof; others, especially Education and Health Care, experienced much more significant declines in giving

The Impact Of This Recession

- *The impact on students is painfully obvious; our endowment losses have eroded our ability to deliver increased financial aid, at the very moment the costs of higher education have reached (some would say) unreasonable heights*
- *Worse, the credit and housing crisis have made it enormously more difficult for middle class Americans to use 2nd mortgages and equity loans to fund the shortfall they face in college costs for their children*
- *From the fundraising point of view, we have many, many client institutions coming to terms with the escalating financial aid promises made to those families, realizing that they can't afford to deliver the goods, and turning to our fundraising programs with the expectation that they can deliver more at the very moment our best and most loyal donors are warning us to expect less*
- *Far greater still, is the market impact on young graduates in search of their first jobs (thank goodness for Teach for America), much less Business and Law grads hammered by declines in those job markets*

The Impact Of This Recession

- *With regard to “Bricks and Mortar:”* Thoughtful programs in times like these back away from buildings and see *people* (students!) as the most compelling and important recipients of these gifts; we’ve had little choice, I might add—building donors are even tougher to find in a down economy
- As it is, all of Higher Education over the past 15 years (some \$300 billion in gifts) managed to secure only 14% (\$42 billion) for capital purposes, despite the fact that most campaign brochures either explicitly or implicitly set targets for buildings at double that or more
- What’s the result? A rising level of debt in our higher education system funded largely by the cash flow from tuition, service fees, and borrowing (paid for by students and their families) that we all thought would continue to grow faster than the rate of inflation

The Impact Of This Recession

- Our donors are also becoming increasingly wary of how we manage our universities; cost increases well above inflation (the higher education cost index over the past 15 years was 5.9%; nearly double the consumer price index of 2.9%), Division I Athletics programs that in the aggregate lose more than a billion dollars a year, and academic health care systems that continue to prove they are the most difficult businesses to run in America today
- They don't know what to make of what appear to be out of control costs of our higher education system, even as they deeply admire our philanthropic achievement of persuading alumni families to give generously to ensure broad access, diverse educational experiences, and lifelong opportunities

The Impact Of This Recession

- *As for the concept of endowment:* It was in trouble before this economic crisis, and its cogency as a strategy of generational equity, as a proxy for quality, is up for grabs; human service organizations have for a long time understood that poverty, human deprivation, and social justice all require the full measure of a dollar today, and grimace over the notion of a nickel a year in perpetuity, which that same gift would yield as an endowment
- There are numerous papers written that argue that most gifts to science should be spent *now*, as the potential ROI such gifts can deliver to human benefit and knowledge-making is considerably higher if we spend it now
- Indeed, our most thoughtful venture philanthropists, and our largest operating foundations in the country (Gates) will not make gifts to endowment; rather they say, we'll only give it to you if you spend it now, and *achieve* the demonstrable impact you've promised – sooner not later

The Impact Of This Recession

- The phenomenon of “Bridge Gifts” did catch donor interest in many places—their willingness to fund in the short term the equivalent cash flow that would have been generated by the large-scale endowment gift they might have given three years ago
- Given all this, we are not sure that our donor communities will move so quickly as before to restore those endowed funds to where they *peaked* such a short time ago; ironically enough, our tuition-driven clients, have thanked their lucky stars that they don’t have quite the same challenges faced by our distinguished colleagues at Harvard, Yale, and Stanford
- In short, we will see a “reset” in our philanthropic world, perhaps similar to what we’ve seen in the financial and credit markets; wherever we land, it’s not back to the status quo
- Our donors are smarter, more wary of risk, more intent to do permanent good; this due diligence at every gift level has risen—they are certainly slower to decide, they ask more questions, they seek more advice, they now expect tangible return
 - Tax exemption for hospitals
 - Expansion of 990 forms
 - Tax regulations and public scrutiny - CEO salaries and fundraising costs

The Impact Of This Recession

- So what might be the long-term effects, or the full impact upon giving to Higher Education and to our mega-goal campaigns as we emerge from this severe recession?
 - First, we have learned some useful and memorable lessons. Those institutions that set absurdly aggressive campaign goals, thinking that compound growth would continue to rise, are indeed chagrined. The mere addition of a year or two to their campaign timeframe will not solve the shortfalls they face. Those that were thoughtful in their planning, and less speculative about their donor pipelines have been challenged, but are indeed within reach of their goals
 - Second, many who were moving through the cycle of preparing for a campaign have begun to ask themselves whether the large-scale blockbuster goals of comprehensive campaigns are really as salubrious as they are often depicted. Again, some are asking, is there some moral imperative that our next campaign goal should necessarily be *higher* and *broader* than that of our last campaign?
 - Can we shift and rethink our frameworks for such initiatives in ways that might continue to unlock generous giving, and still make our institutions publicly successful with philanthropy?

The Impact Of This Recession

- Some universities did respond to this crisis quite strategically; their budget cuts have been thoughtful, incisive, and all about the opportunity to *improve*
- *Many* more have been complacent, however, and simply adopted “across the board” reductions that tend to avoid conflict or grapple with the issues of sound management or effective spending
- One observation I might make: many of us thought that the last two years were a particularly good opportunity to market gift planning strategies (Lead Trusts, for example) to a broad donor segment; many of our clients failed to seize that opportunity, in large measure because their marketing budgets were early casualties to budget cuts—poor strategic thinking

The Impact Of This Recession

- We believe that while big gifts are fewer at the moment, *they will return*. The passion and engagement that engendered such gifts in the past will continue to make itself felt—we've all learned a great deal about how to generate such opportunities as we constantly refine and clarify our strategic mission. Keep in mind, even as philanthropy hit a 50-year decline in 2008, we believe it is on the mend, and, it remains above the equivalent of 2.2% of GDP; still one of the highest levels of giving across the American population that we've seen over the past 60 years, and the highest of any global economy.
- Innovative leaders are already looking at ways to accomplish more with less; they're asking what we should expect from our major gift professionals, from our annual fund, and reunion programs

The Impact Of This Recession

- Really well-managed and led institutions took courageous steps, not just readjustments, but made major changes to the way they did business:
 - Stanford Gift Processing: \$2.90 - \$15.40
 - Cornell: 82 positions; and reinvested in a whole new enterprise of 20 major gift professionals in New York City
 - Notre Dame: even as they were surpassing their \$1.5 B goal, they had the incredible insight to ask, “How do we get better?” and reorganized much of their fundraising program structure
- This has of course unlocked a torrent of discourse on the topic: on the cost efficiencies of our work; what’s realistic and what could we achieve if we leverage the skills and knowledge of our volunteer colleagues who run businesses?

At the End of the Day, We're Optimistic

- Donors recognize that these are tough times and they are responding, selectively
- There is still great wealth in America, an extraordinary level of cash on the “sidelines,” and significant resources that have moved into Donor Advised Funds in the last three years
- The capital markets have clearly rebounded, restoring some wealth, though Main Street unemployment and corporate profits are still a factor
- The largest risk we've identified is when our client institutions fail to recognize the increased level of donor due diligence in this environment, or stop asking altogether
- Leadership philanthropists have called for more philanthropic commitment now, and major gift donors in almost every part of the country have responded

Ten Lessons We Seem To Have Learned (Or Learned Again...)

- 1) You can't stop asking; those that did got hurt the worst
- 2) Market volatility slows decision making, and certainly weakened our ability to close large, multi-year pledges
- 3) Our investors have been reminded of the value of everything— they became tougher, more thoughtful consumers and philanthropists; every “case” you make has to be reconceived, sharper, and more compelling
- 4) Crisis turns out to be a huge opportunity:
 - It's an opportunity to prune, reorganize, and reinvest
 - People “get it” and you can get more change management done, more easily
 - You finally have a shot at those sacred cows (we all have them)
- 5) Infrastructure costs and inefficient practices can be better targets for cost control than your human capital

Ten Lessons We Seem To Have Learned (Or Learned Again...)

- 6) Donors want to see prudent management: when they do, they invest more, and feel better about it
- 7) Thoughtful leadership donors, those willing to be exemplars and generate momentum, moved toward **matching** and **challenge** gifts, and toward more venture philanthropy initiatives
- 8) Most donors stay loyal, if you give them reason to be
- 9) Stewardship is probably even more important than we thought
- 10) You learn a lot about your team: who the leaders are; who the whiners are

Fundraising for Law Schools: A Few Questions

- 68 of 199 law schools reported being in a campaign, or planning for one last year
- Two-thirds of the top 20 law schools are in a campaign
- There are lots of interesting questions for us on the Law School landscape:
 - 1) How do we cope with the impact of the economy on law firms and on giving to Law Schools?
 - 2) Annual giving strategies: building philanthropic culture
 - Eighty percent (80%) of the top 20 law schools do not solicit gifts from their staff; only 50% solicit gifts from faculty; some have problems soliciting their own Alumni with who have multiple degrees
 - 3) Engaging broader constituencies (non-practicing alumni or non alumni)
 - Eighty percent (80%) of top 20 law schools attract significant giving from non alumni (500 to 1,500 donors!)
 - 4) What kind of campaigns (Law School) have a future?

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High-Performance Fundraising Organizations

A Checklist For High-Performance Philanthropy

- ❑ An institutional strategy that is uniquely differentiating and well suited to your core strategies and values, resources, and culture
- ❑ A compelling rationale for private gift support, tied directly to the strategic, mission-critical objectives of the institution
- ❑ Internal academic, clinical, and stakeholder consensus around those private support objectives
- ❑ Governance/volunteer leaders who understand the role of private gifts and see them as essential, not elective, to achieving institutional mission and excellence
- ❑ Leaders within the organization who can articulate a compelling vision, enable excellence, build trust, and ensure that each gift will make a difference
- ❑ A Dean who is prepared to cultivate long-term relationships, recruit key leaders, and solicit critical leadership gifts
- ❑ Professional staff who are experienced and proactive in building donor relationships at every level (continuous annual giving, major gifts, and longer-term legacy gifts)

A Checklist For High-Performance Philanthropy

- An “inventory” of gift opportunities that raise the sights of individual donors, and ensure the ability of each donor to have a significant impact upon the institution and programs
- Sustained resource investment in advancement programs and infrastructure, in strategic communication, in engagement initiatives, and in the professionals who drive them
- A pool of rated, qualified prospective donors who are sufficient to meet the identified financial targets of your fundraising program
- Exemplar donors, willing to be acknowledged publicly, who can raise the sights of others and generate momentum
- A significant investment in the cultivation of donor communities: expanding structures of engagement across your constituencies
- Engaged volunteer leaders, philanthropically committed, who will facilitate outreach and assist the institution in building strategic relationships

A Few Best Practices Of High-Performance Fundraising Organizations

- Sets program goals and metrics across advancement programs, and links each to a return on investment (ROI)
- Engages in conscious brand building: identifying institutional strengths, and excellence that can “differentiate”
- Pushes its staff to consistently benchmark with peers
- Competes aggressively for internal capital to grow programs and staff
- Invests substantially in long-term engagement strategies, and in market testing
- Drives accountability and transparency into all of its management activity and reporting

A Few Best Practices Of High-Performance Fundraising Organizations

- Is redesigning its recruiting and training functions to meet the demands of a challenging market place
- Reconstitutes volunteer board agendas and events to ensure that volunteer partners derive both intellectual and emotional value from those experiences
- Provides training and skills development for professional staff, academic partners, and volunteer leaders
- Strengthens the mechanics of its solicitation initiatives, challenging the “prospect” with big ideas, using strategic collaterals, and internal and external partners in the process
- Builds a culture of philanthropy through the encouragement of annual giving practices, building “pipelines” at every gift level

A Few Best Practices Of High-Performance Fundraising Organizations

- Creates gift opportunities (including naming gift strategies) that enable each donor to have an impact, whatever the size of their gift
- Engages academic partners in the process of developing the “case,” cultivating relationships with investors, and as appropriate, soliciting
- Tasks themselves to look for leaders in every part of their enterprise
- Facilitates and often helps to shape the transformational initiatives to which big donors often respond
- Practices extraordinary stewardship for gifts of every size

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What Still Works: The Best Long-Term Strategy

What Still Works

- Building relationships
- Practicing transparency engenders trust. Trust leads to investment
- Defining a precise and powerful impact for every gift
- Asking
- Being accountable beyond the expectations of every donor